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PSA BRIEF

Due Diligence in Saudi Arabia

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Pre-Transaction Due Diligence in KSA – Pitfalls to Avoid in 2024

The year 2023 witnessed continued international interest in the Saudi market buoyed by sovereign wealth fund activity and favorable incentives promoted by the government. The Kingdom of Saudi Arabia's (KSA) Public Investment Fund (PIF) deployed USD 31.6 billion over 49 deals representing a 33% increase than the previous year, according to [Global SWF's latest annual report](#). In December 2023, [KSA announced a 30-year zero percent income tax incentive](#) for international companies relocating their regional headquarters to Riyadh.



External geopolitical developments also drove investment interest in the Saudi market, especially from China. Mounting tensions between the US and China and the blacklisting of Chinese firms from US stock exchanges have pushed China and the Middle East closer together. 2023 witnessed the signing of MoU's between Saudi Tadawul Group with the [Shanghai Stock Exchange](#) and the [Shenzhen Stock Exchange](#) to promote cooperation between the exchanges.

With investment interest in KSA expected to continue in 2024—in the context of a wider Middle East IPO boom—PSA has compiled the major pitfalls international companies will face when performing due diligence in KSA:

◆ Political Exposure and Identifying UBO's:

When transacting in KSA, identifying your counterparty's ultimate beneficial owners (UBO) is key to avoiding US FCPA or UK Bribery Act issues. International companies may find that the line between a businessperson's private interests and official government role is less defined in KSA as compared to their home country. Additionally, there may be familial ties with the Al Saud Royal Family, which has [15,000 members by some estimates](#), but not all are positioned to influence procurement decisions. As a result, identifying a politically exposed person (PEP) as a UBO is not necessarily indicative of something illicit but may call for more enhanced due diligence.

To identify a counterparty's UBO's, shareholder information is accessible from the Ministry of Commerce. When UBO's are obscured through multiple layers of ownership, shareholders should be mapped to the highest level possible and screened appropriately. Certain types of legal entities like Joint Stock Companies do not always publicly disclose shareholder data. In these cases, investigative due diligence can provide insights into the background and reputation of a counterparty from knowledgeable industry sources. These insights may offer clues into who ultimately owns or controls a company and help identify any potential corruption risks from political exposure.

◆ **Insights into Standing Vis-à-Vis Saudi Government:**

When assessing the suitability of a counterparty, international companies also need to consider the prospect of scrutiny from Saudi anti-corruption authorities. In November 2017, Crown Prince Mohammed bin Salman ordered a major anti-corruption campaign targeting hundreds of prominent businesspeople, government officials, and princes. They were detained in the Ritz-Carlton Hotel in Riyadh and interrogated over their past business deals. Some faced criminal charges for corruption and embezzlement while others negotiated financial settlements, [reportedly netting the government over USD 106 billion](#).

International companies should vet their counterparties to check if they were implicated in the 2017 anti-corruption campaign and, if so, seek to determine what the outcome was. Some of this information has been published in the media but it may also be necessary to engage local subject matter experts for further context into whether additional scrutiny of a counterparty is likely. Saudi Arabia's [Oversight and Anti-Corruption Authority \(Nazaha\)](#) is tasked with stamping out corruption. International companies should follow Nazaha's actions closely as KSA seeks to transform how business is done in the country.

◆ **Common Names and False Positives:**

Considering the issues above, international companies inevitably will encounter false positive name matches while conducting due diligence research on their Saudi counterparties. The prevalence of common first and last names in KSA can delay transactions when there are adverse findings related to political exposure, corruption, sanctions, or terror financing. Moreover, commercially available databases such as Refinitiv World-Check and Dow Jones RiskCenter may lack sufficient identifiers to rule out potential name matches with confidence.

To resolve this, research support from a native Arabic-speaking analyst is critical. They can start by identifying the counterparty's full Arabic name from their National ID copy (if available) or checking their business license. Arabic names in KSA are typically structured beginning with a first name followed by the father's name, then the grandfather's name (and so on), and ending with the family name. The more names available, the faster a name match can be confirmed or ruled out, bringing the transaction back on track.



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