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Shareholder Protection in Saudi Companies Law: Assessing Merger and Acquisition Efficacy for Unlisted Joint Stock Companies

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Abstract

This paper explores the legal protections afforded to shareholders of unlisted joint stock companies in Saudi Arabia during merger and acquisition activities. There are significant risks associated with using tools like mergers and acquisitions, including market share loss and decreased profitability for shareholders. Thus, this study aims to analyse the Saudi Companies Law for potential gaps that may affect shareholder legal protections. The researchers primarily use a doctrinal legal methodology to assess the legal framework. This approach provides that the study is based on an examination of the legal framework of Saudi Arabia such as statutes, rules, principles, and cases[1]. It will also apply the analytical approach to evaluate the legal framework's fundamentals, conceptual problems, and practical effects, to make sure that the study finds opportunities for improvement. The Article identifies the differences between unlisted and listed companies concerning document disclosure

[1] Hurchinson, T & Duncan, N (2012), Defining and Describing What We Do: Doctrinal Legal Research by ResearchGate, P.85.

requirements, lack of the method used for asset valuation, lack of forward-looking information disclosure, the absence of obligatory independent financial reports and unclear definitions of shareholder rights to oppose or exit mergers and acquisitions at fair value. The study found that these areas represent potential gaps that could undermine shareholders of unlisted joint stock, improvements to the law, such as the adoption of independent valuation standards, mandatory financial disclosures, and clearer expression of shareholder rights.

Keywords: Merger, Acquisition, Unlisted Joint Stock Company, Companies Law, Legal Protection, Shareholders.

1. Introduction

Mergers and acquisitions are strategic tools that companies use to achieve a variety of objectives, from expanding market share to optimizing operational efficiencies. The goal is to achieve growth, diversify, expand services, reduce operational costs, and gain a competitive edge (Saxena, 2012, P.2). These tools and transactions must be well-regulated to protect shareholders, as these activities can fundamentally change the company's policy, strategy, and management (OECD, 2004, P.3).

The Saudi legislature has expressed its intention to give significant attention to the protection of shareholders. They aim to protect shareholders from misleading actions, negligence, and other harmful acts committed by a company, whether by the General Assembly, the company manager, or the board of directors. The Companies Law try to achieve that level of protection by regulating harmful behaviors and punishing anyone who commits them and providing shareholders with the right to sue the violator through various legal applications and regulations, such as the Companies Law, the Capital Market Law, the Competition Law, etc. Furthermore, a high level of protection is necessary for mergers and acquisitions due to potential

market share loss and decreased profitability in the acquired companies, which in turn leads to decreased profitability for the shareholders (Dilshad, 2013, P.99).

This article focuses on the application of the Saudi Companies Law and explores other practices, domestically and internationally in order to discuss and analyse their compatibility with the Saudi Companies Law. It also analyses and investigates potential gaps or ambiguities in the Saudi Companies Law concerning the legal protection offered to shareholders of unlisted joint stock companies in merger and acquisition activities aiming to analyse the challenges of Saudi Arabian laws on the efficiency of merger and acquisition processes regarding shareholder protection for unlisted joint stock companies.

2. Legal Protection for Shareholders in Unlisted Joint Stock Companies in Mergers and Acquisitions:

2.1 Conflict of Interest

The Saudi Companies Law mandates that if a board member has any personal conflict of interest he must disclose it to the board. Furthermore, the law prohibits such members from voting on decisions related to the matter they have conflict with. Should a board member neglect to reveal his interest, the company is entitled to pursue legal action against the individual in question through a competent judicial authority. Such legal proceedings aim to invalidate the conflict or require the board member to rescind any profits or benefits derived from the decision in question (The Companies Law, 2022, Article 71).

The Saudi Companies Law clearly states that any conflict of interest arising from transactions or contracts executed on behalf of the company by either the company manager or a board member is deemed intolerable (The Companies Law, 2022, Article 27/1). This principle is broadly applicable to various activities, including mergers, acquisitions, and contracts. If any conflict of interest arises without proper

disclosure to shareholders, the law empowers shareholders to initiate legal action against the violator in the competent judicial authority. Shareholders can invoke a judge to invalidate the conflicted contract and reclaim any profits or benefits gained from such a violation (The Companies Law, 2022, Article 27/6). This policy aligns with the regulations governing listed companies in Saudi Arabia, ensuring a unified approach for listed and unlisted companies to managing conflicts of interest (Merger and Acquisition Regulation, 2023, Article 3).

2.2 Joint Liability of Company Management

The Saudi Companies Law establishes joint liability for the company's manager and the members of the board of directors for any acts of negligence, omission, or wrongful action in executing their duties. It thus provides a crucial protection for safeguarding shareholders' interests. The law points out that any provision aiming to avoid this rule, whether included in contracts, the articles of association, or any other documents, shall be deemed void and of no effect (The Companies Law, 2022, Article 28).

2.3 Legal Action Initiated by Shareholders

The Companies Law outlines three types of legal actions that the company, partners, and shareholders can pursue. This paper focuses on the legal protection of shareholders in unlisted joint stock companies, so this paper will examine the legal recourse available to shareholders.

The Saudi Companies Law provides shareholders the right to sue the company's manager or any board members for damages suffered by the company due to violations of the law, wrongful acts, negligence, or failure to fulfill their duties. According to Article 29, the shareholders who represent at least 5% of the company's capital may initiate legal action on the company's behalf if the company fails to do so. (Note: Should the company's articles of incorporation or association specify a

lower threshold, that lower percentage applies.) Also, an individual shareholder is entitled to sue the management for personal damages incurred, regardless of their share in the company's equity. (Note: The law does not define personal damages, leaving their assessment to the competent judicial authority.)

The Law clarifies that a decision by the General Assembly or the shareholders to relieve the management of liability does not prevent shareholders from starting legal proceedings (The Companies Law, 2022, Article 30).

Furthermore, the law establishes a statute of limitations for any cases or rights afforded by the Companies Law – except for cases involving forgery and fraud – at five years from the end of the fiscal year in which the damaging act occurred or three years from the conclusion of the manager's or board member's tenure, whichever is later (The Companies Law, 2022, Article 30). Shareholders have the right to ask the competent judicial authority to order the company to cover legal expenses, regardless of the lawsuit's outcome, with the condition that the lawsuit was filed in good faith and the company's interest (The Companies Law, 2022, Article 32).

2.4 Powers of The Extraordinary General Assembly and Voting

The Saudi Companies Law specifies the scope of the Extraordinary General Assembly's functions, including amending the company's articles of association, making decisions concerning the company's continuance, deciding the company's purchase of its shares, and making decisions related to mergers or divisions of the company (The Companies Law, 2022, Article 85).

In order to protect the essential rights of shareholders, the Companies Law stipulates that any changes to the company's articles of association are void if they violate a shareholder's fundamental rights. The fundamental rights include receiving dividends, obtaining a portion of the company's net assets upon liquidation, participating and voting at general meetings, disposing of their shares, and requesting

access to the company's records and documents (The Companies Law, 2022, Article 85). Furthermore, the law voids any amendment increasing shareholders' financial obligations unless it receives the unanimous consent of all shareholders (The Companies Law, 2022, Article 85).

A three-quarters majority of the voting shares present at the meeting must approve the decision to merge a company (The Companies Law, 2022, Article 93). (Note: The Companies Law does not specify the voting requirement for decisions related to selling shares to an acquirer for acquisition purposes.)

In order to safeguard shareholders' interests, the implementing regulations permit the company to conduct general or special meetings using technological means and allow for electronic voting. However, this provision obliges the company that the option to vote electronically must become available after the meeting invitations are sent, with a period set for shareholders to vote electronically to begin at least three days before the meeting date (the Implementing Regulations of The Companies Law, 2023, Article 24).

2.5 Objection to Shareholder Assembly Decisions

The Companies Law grants shareholders the ability to challenge and invalidate decisions made by the general or special assembly if the decisions violate the law or the company's articles of association. In order for shareholders to exercise this right, they must have objected to the decision or have been absent from the meeting for a valid reason (The Companies Law, 2022, Article 99). (Note: The law does not specify what is considered a valid reason for absence, leaving it to the competent judicial authority to exercise discretion in making this judgment.)

2.6 Issuing A Decision by Circulation

The Companies Law states that the articles of association for an unlisted joint stock company may grant the chairman of the board the authority to propose the issuance of a General Assembly decision by the method of circulation (The Companies Law, Article 100). A decision by circulation is defined as the process where a proposal is presented to the shareholders without having a physical General Meeting of Shareholders. Instead, the proposal is distributed in writing to all shareholders, who must approve the proposal in writing to be passed (Nurcahyo, 2018, P.357).

However, to safeguard shareholder interests, the law prohibits using the circulation method if any shareholder objects and requests a meeting for deliberation. Such a request must be submitted in writing (The Companies Law, 2022, Article 100/1).

Additionally, the law declares any decision made via the circulation method as invalid if the relevant documents, instructions for approving the decision, and the set date for its issuance were not sent to shareholders (The Companies Law, 2022, Article 100/2).

Regarding the decision on mergers, which falls under the powers of the extraordinary General Assembly, such a decision shall be passed if approved by shareholders representing at least 75% of the company's voting rights (The Companies Law, 2022, Article 101).

2.7 Drag-Along and Tag-Along Rights

Tools like drag-along and tag-along rights allow shareholders to withdraw from their investments quickly and easily (Qimatshoeva, 2020, P.21). According to the Companies Law, in the articles of associations, shareholders who represent at least 90% of the company’s voting rights may add the right for the majority shareholders to oblige the minority shareholders to sell their shares and accept the offer for the

same price, terms, and conditions applicable for the purchase of the majority shareholders. This right is known as (drag-Along right).

Additionally, the minority right shall have the right to oblige the majority of shareholders to guarantee the sales of their shares for the same price, terms, and conditions applicable to the sale of the majority shareholders, which is known as (tag-along right) (The Companies Law, 2022, Article 113). (Note: The article offered in the Companies Law on this matter is permissible, not obligatory.)

The drag-along right is held by the majority shareholder, providing the majority shareholder the right to involve minority shareholders in the sale of their shares to a third party. This right ensures that all shareholders sell their shares under similar terms and conditions. This mechanism allows a potential new shareholder to purchase the entire company. This right primarily benefits the majority shareholder by eliminating potential challenges from non-cooperative minority shareholders during the sale process. It also offers minority shareholders the opportunity to sell their shares on equal terms with the majority shareholder (Justisiana, 2022, P.52).

The tag-along right usually benefits and protects the interests of the minority shareholders. When a majority shareholder decides to sell their shares, the tag-along right ensures that minority shareholders can participate in the sale at the same price as the majority shareholders. The tag-along right is designed to prevent differences between minority and majority shareholders during the sale and purchase of company shares. Without this right, minority shareholders might be forced to sell their shares at a lower price than the price received by the majority shareholder. Thus, the tag-along right offers crucial protection for minority shareholders within the shareholders' agreement (Justisiana, 2022, P.53).

2.8 Merger Proposal

The Saudi Companies Law specifies the requirements needed in the merger proposal such as the terms of the merger, the nature and value of the offer, a statement for each company indicating its ability to pay its debts, and a valuation of the assets of each company (The Companies Law, 2022, Article 225).

The merger and acquisition regulation, [2] which is a Regulation issued by The Saudi Capital Market Authority in order to regulate merger and acquisition activities in the companies that are listed in the Saudi Stock Markets establishes certain requirements of the offer documents relating to merger and acquisition activities. Importantly, the scope of this regulation and its application is limited only to the listed companies in the Saudi stock market. It does not apply to unlisted joint stock companies. Those requirements are: sales and net profit or loss before and after zakat or tax, the value of zakat or tax paid, any exceptional items, minority interest, the total amount of dividends, revenue, and profit per share for the last three financial years, statement of assets and liabilities, cash flow, all material changes in the financial or commercial position, any information from the above items which has been adjusted to account for the impact of inflation. (Merger and Acquisition Regulation, 2023, Article 38)

Joint stock companies, including unlisted ones, are legally obligated to issue annual financial statements (The Companies Law, 2022, Article 121). All the information mentioned above must be disclosed in the company's financial statements. Therefore, in the case of mergers or acquisitions, the Companies Law should oblige the companies to provide shareholders with the financial statements of the other company involved in the merger. This provision protects and enables shareholders

[2] The Merger and Acquisition Regulation, issued by the Board of the Capital Market Authority, Pursuant to Resolution Number 1-50-2007, Dated 21/9/1428H Corresponding to 3/10/2007G, Based on the Capital Market Law, Issued by Royal Decree No. M/30 dated 2/6/1424H

to make informed investment decisions based on the data contained in the financial statements.

The merger and acquisition regulation outlines additional requirements for an offer document to ensure that shareholders are well-informed, enabling them to make educated investment decisions. According to the Article 38, the additional requirements are:

Consultation with an Independent Financial Advisor: This requirement for a statement at the beginning of the offer document advising shareholders to consult an independent financial advisor is critical. It emphasizes the significance of obtaining expert advice, especially in complex transactions which might not be easily understood by all shareholders. This step also ensures that shareholders are aware of the resources available to them to make an informed decision and protect their financial interests (Marsden & Zick & Mayer, 2011, P.630).

Detailed Information on the Offer: This regulation requires companies to provide detailed disclosures about the offeror, the offeree, the securities involved, and the financial terms of the offer. Those requirements help ensure shareholders have a complete understanding of the transaction.

Historical Financial Performance and Future Projections: These details enable shareholders to evaluate the economic conditions of the participating companies and assist them in accurately valuing the offer. In addition to enabling shareholders to make decisions that are aligned with their investment goals, this transparency requirement is essential for them to understand the possible risks and rewards of the transaction (Nilsson, 2003, PP. 12-14).

Special Arrangements or Conditions: This regulation ensures that all parties are aware of any side deals or conflicts of interest that could affect the transaction's outcome. It requires the companies to report any special agreements, arrangements,

or understandings between the offeror and members of the offeree's board or shareholders.

2.9 Objection to Merger Decision

The Saudi Companies Law addresses the rights of creditors during a merger. It allows creditors to object to the merger decision if they believe it will inhibit their ability to recover debts from the merging companies. The law also specifies the steps and deadlines for disclosing the merger, raising objections, and, if required, seeking remedies through the competent judicial authority (The Companies Law, 2022, Article 227).

The Companies Law neither addresses the right of shareholders to object to the merger decision nor provides them with a process for objecting or seeking legal overview through a competent judicial authority.

2.10 Obligation to Purchase or Sell The Shares

The Companies Law defines the obligations and rights surrounding the acquisition of a significant shareholding that owns (90% or more) separately or collectively in a joint stock company with voting rights known as a mandatory offer. supporting a legal system designed to safeguard minority shareholders while facilitating corporate consolidations by requiring disclosure from any individual or organization working together to meet this shareholding limit. Furthermore, it gives other shareholders the right to demand an offer to buy their shares at a fair value within a certain period (Burkart & Panunzi, 2003, PP. 12-16). However, the law also allows these majority shareholders to seek regulatory approval for a squeeze-out right to buy out the minority shareholders' shares to ensure an equitable exit strategy for shareholders who do not want to be part of an almost fully owned entity (Burkart & Panunzi, 2003, PP. 17-19). The Companies Law tries to balance the interests of majority and minority shareholders by enforcing transparency in transactions, providing a process

for price disputes to be resolved by the competent judicial authorities, and ensuring that buyout processes comply with regulated timelines and procedures (The Companies Law, 2022, Article 230).

2.11 Penalties for Violations

In the context of mergers and acquisitions, penalties play a significant role in enhancing the regulatory system's protection of shareholders. The law specifies fines of SR 500,000 for any violations that harm the rights and interests of shareholders (The Companies Law, 2022, Article 262).

Shareholders have an absolute right to information, participation in decision-making, and protection of their interests during merger and acquisition transactions. mergers and acquisitions may have different results if rights are violated including the following: preventing shareholders from participating in meetings or voting, neglecting to keep accurate accounting records, or performing any other illegal act.

Additionally, the company and its shareholders are protected from conflicts of interest by the imposition of penalties on directors who unjustly profit from their positions; otherwise, conflicts of interest could result in adverse decisions for shareholder value. This safeguard is essential to merger and acquisition situations since board members may significantly influence the terms of negotiations and deal approval. Article 262, which imposes fines for violations, is crucial for enforcing the rules intended to protect the interests of shareholders. This legal measure guarantees that merger and acquisition transactions take place in a framework that focuses on accountability, transparency, and equality.

3. Why the Companies Law is Ineffective in Protecting the Shareholders in Unlisted Joint Stock Companies in Merger and Acquisition Activities

3.1 Introduction

The complexities of merger and acquisition activities within unlisted joint stock companies have legal and procedural challenges, particularly in the context of the Saudi Companies Law. The Companies Law establishes various requirements to protect the interests of shareholders in an effort to balance the interests of different shareholder groups. However, after analysing the law, certain gaps become apparent which may affect the protection of shareholders, especially minority shareholders.

This chapter discusses the requirements of offer documents, the provision of drag-along and tag-along rights, and the importance of appraisal rights in protecting shareholders during merger and acquisition transactions. The aim of analysing the Saudi Companies Law is to discover the challenges and gaps that may prevent shareholders from understanding, participating in, and benefitting from merger and acquisition activities and the legal protection the law offers.

This analysis highlights a significant need for improved shareholder protections and legislative clarity amid company changes. Furthermore, it calls for a comprehensive review of the existing legal framework to guarantee fairness and informed choices for all involved shareholders.

3.2 Offer Documents

While the Companies Law mandates disclosures around mergers, including terms, value, and valuations of the companies' assets (The Companies Law, 2022, Article 225), there is a critical gap in how uniformly these requirements are applied across different companies and transactions. The level of detail in unlisted companies' disclosures might not match those for listed companies due to the Capital Market

Authority's regulatory oversight for listed companies. This difference can leave unlisted companies' shareholders less informed and more vulnerable to decisions that may not reflect their best interests (Carvalho, 2019, P.7).

The Companies Law requires asset valuations in merger proposals, but it does not specify the methodologies to evaluate the assets or the need for independent valuation experts to issue a report. This oversight can lead to inconsistencies between companies in how assets are valued, potentially affecting the merger terms in favor of one party. In particular, unlisted joint stock companies tend to lack available information, which limits the shareholder's ability to conduct extensive research (Carvalho, 2019, P.7). An assurance that valuations are done by independent third parties and according to internationally recognized standards could reduce this gap.

The Companies Law requires joint stock companies to disclose financial statements to shareholders, which is crucial in the context of merger and acquisition. However, the law does not require the financial statement or merger proposal to include forward-looking information, such as projections and strategic post-merger plans. This gap can prevent shareholders' ability to understand the future implications of the merger, particularly for their investment's long-term value (Do et al., 2023, P.9). Additionally, the law does not oblige the companies undergoing a merger transaction to disclose the financial statements of the merging entities to their shareholders.

The Companies Law does not oblige unlisted joint stock companies to issue independent financial reports from an independent financial advisor regarding mergers and acquisitions. The law could be enhanced by obliging the merging companies to issue an independent financial report from an independent financial advisor regarding the merger or acquisition offer, similar to the merger and acquisition regulation requirements (Merger and Acquisition Regulation, Article 18

& 39/a). The law could also provide mechanisms for shareholder access to independent financial advice issued by an independent advisor.

3.3 Lack of A Proper Exit Strategy When A Merger and Acquisition is Refused

The Companies Law provides shareholders with the right to withdraw from the company. These rights are called drag–along and tag–along. They are implemented when a shareholder acquires at least 90% of the company's voting shares, and these rights offered to balance the powers between minority and majority shareholders (The Companies Law, 2022, Article 113/a&b). However, sometimes, merger and acquisition activities are not accepted by all the shareholders (Al-Hemyari, 2021, P.214). Nonetheless, the Companies Law does not mention any exit strategy for anyone who refuses the merger decision or acquisition in the General Meeting and wants to leave the company.

The European Union (EU) solved this problem with Article (126a) of Directive 2019/2121 by offering a minimum level of protection and rights to the shareholders of a merging company who voted against the approval of the cross-border merger. It includes the right of the shareholder who refuses to approve the merger decision in the General Meeting to exit the company with fair value for his shares as compensation (Papadopoulos, 2021, PP.5-7).

Therefore, the EU's reconciliation can be applied in the Saudi Companies Law to provide the shareholders with a way out and a mechanism to dispose of their shares for a fair value if they do not approve the merger or acquisition decision.

3.4 Right To Object

The Saudi Companies Law grants shareholders of unlisted joint stock companies the right to file a lawsuit before the competent judicial authority to invalidate the

decisions issued by the General Assembly. This right to file includes decisions on mergers and acquisitions if the decision violates the law or the company's articles of association (The Companies Law, 2022, Article 99). Moreover, the Companies Law grants shareholders the right to initiate legal action against the company's director or board members if they violate the Companies Law or exhibit any wrongful act, negligence, or omission in their duties, resulting in damages to the company (The Companies Law, 2022, Article 29).

Nonetheless, the Companies Law does not explicitly nor specifically grant the right to shareholders to object to or challenge the merger and acquisition decision issued by the General Assembly. Instead, the Companies Law only provides the right to the company creditors to object to the merger decision as a first step. If the company does not provide the creditor with a sufficient guarantee or pay the creditor's debt, then the creditors have the right to raise an objection to the competent judicial authority (The Companies Law, 2022, Article 227). It is crucial to explicitly grant the right to shareholders to object to or challenge the merger and acquisition decision issued by the General Assembly because mergers and acquisitions impact the company's strategy and management, which may affect the shareholder's investment decision or the company's profitability.

3.5 Appraisal Rights

Appraisal rights allow dissenting shareholders to compel the corporation to compensate them with the "fair value" of their shares in the event of mergers or certain significant transformations (Matthews, 2020, P.1). However, in the Saudi Companies Law, specific references to appraisal rights or equivalent provisions that permit shareholders to demand a fair value for their shares in cases of disagreement with certain corporate actions, such as mergers, are not explicitly found (Almulhim, 2016, P.256). The appraisal serves to protect shareholders who oppose a fundamental

corporate action by establishing a way out for them if the new fundamental change does not align with their investment approach (Masondo, 2018, P.10). This right is found in many countries, such as South Africa (The South African Companies Act 71, 2008, Article 164) and New Zealand (The New Zealand Companies Act, 1993, Article 112(4)).

it is important that The Companies Law explicitly states such a right because it will provide shareholders who oppose the merger or acquisition decision a way out while receiving a fair value for their shares.

3.6 Drag-Along and Tag-Along Rights

Tools like drag-along and tag-along rights allow shareholders to withdraw from their investments quickly and easily (Qimatshoeva, 2020, P.21). Under the Companies Law, shareholders who represent at least 90% of the company's voting rights may add in the articles of associations the right for the majority shareholders to oblige the minority shareholders to sell their shares and accept the offer for the same price, terms, and conditions as the majority shareholders. This is known as a drag-along right. Furthermore, the minority shareholders have the right to oblige the majority shareholders to guarantee the sales of their shares for the same price, terms, and conditions as the majority shareholders. This is known as the tag-along right (The Companies Law, 2022, Article 113).

The law provides the shareholders who represent 90% of the company's voting rights the right to include in the company's article of association the rights of drag- and tag-along by referring to the fact that the majority or minority shareholders will practice the rights. However, an analysis of the law shows that it does not refer to the majority and minority definitions, which may be problematic for the shareholders when they want to practice their rights.

The corporate governance regulations for unlisted joint stock companies define "substantial shareholders" as those who own 5% or more of the company's shares or voting rights. Additionally, a "controlling interest" is defined as the ability to influence the actions or decisions of another person directly or indirectly. This influence can happen individually or collectively by owning 50% or more of the company's voting rights or by having the right to appoint 50% or more of the management body members (The Corporate Governance Regulations for Unlisted Joint Stock Companies, 2018, Article 1). Some researchers have defined the majority shareholders as those owning 50% or more of the company's ordinary shares (Holderness & Sheehan, 2000, P.145). Therefore, it becomes apparent that the Companies Law lacks clarity in defining majority and minority shareholders, which may result in ambiguity for shareholders in exercising this right.

4. Conclusion and Recommendations

This research provides an in-depth analysis of the legal protections provided in the Saudi Companies Law to shareholders of unlisted joint stock companies during merger and acquisition activities. Various aspects of the current Saudi Companies Law present difficulties and gaps that may compromise shareholders' interests, such as the requirements for document disclosure, asset valuation methods, forward-looking information in financial statements, and the lack of a clear exit strategy for shareholders.

This analysis clarified how much the legal structure that protects shareholders needs to be improved. However, in line with international standards, the Saudi Companies Law can grant shareholders of unlisted joint stock companies in order to raise the efficiency of merger and acquisition processes regarding shareholder protection crucial rights and information intended to maximize the shareholder protection of an unlisted joint stock company in merger and acquisition activities in The Companies

Law such as: require detail disclosures for the information of the companies, specify the methodologies to evaluate the assets of the companies, include forward-looking information in the merger proposal, issue an independent financial report from an independent financial advisor, State an exit strategy for any shareholder who refuses the merger decision or acquisition, object to or challenge the merger and acquisition decision, states appraisal rights, define the majority and minority terms.

The study's conclusions have led to the following recommendations for improving legal protections for Saudi Arabian shareholders of unlisted joint stock companies during mergers and acquisitions:

- Provide a standard for both unlisted and listed companies concerning the disclosure of company details. A standard should ensure that all shareholders have access to comprehensive information to make informed decisions, no matter what the shape of the company is listed or unlisted.
- Update the Companies Law to specify the methodology for asset valuations in merger proposals and oblige the use of independent valuation experts. This requirement would lower the risk of inconsistent asset valuations and ensure fairness in merger terms.
- Oblige the companies involved in merger transactions to disclose their financial statements to all shareholders of the other companies involved. This step would enhance transparency and informed decision-making for shareholders.
- Modify the law to require the disclosure of forward-looking information, including projections and strategic plans, after the merger. This provision would improve shareholders' ability to assess the future implications of mergers and acquisitions for their investments.
- Align the Companies Law with the merger and acquisition regulations by requiring the merging companies to issue an independent financial report

regarding the merger or acquisition offer. Provide shareholders with access to independent financial advice issued by an independent advisor, thereby protecting the shareholders' interests.

- Explicitly provide shareholders with the right to object to merger and acquisition decisions and challenge decisions issued by the General Assembly on this matter in the Companies Law. This provision would ensure shareholders have a voice in critical corporate actions affecting their investments.
- Introduce a provision similar to the European Union's, which allows shareholders who disapprove of the merger decision in the General Meeting to exit the company with fair compensation for their shares. This step would protect shareholders who dissent from merger or acquisition decisions.
- Explicitly incorporate appraisal rights into the Saudi Companies Law, offering shareholders who are opposed to fundamental corporate actions a fair exit strategy. This right should allow shareholders who disagree with the merger or acquisition decision to sell their shares at a fair value.
- Define the terms "majority" and "minority" shareholders in the Companies Law to remove unclearness. That should ensure that shareholders can effectively exercise their drag-along and tag-along rights.

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