

Guidance Document on the Beneficial Owner of Non-Profit Associations and Associations

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Introduction

The non-profit sector is a fundamental pillar of both the domestic and global economies, standing alongside the public and private sectors. Through its services in various fields, the sector contributes significantly to societal well-being, enhancement of quality of life, sustainable development, and social and economic stability. However, the misuse of non-profit organizations (NPOs) for illicit purposes poses a serious threat—both regionally and internationally—to the integrity of the sector and public confidence in its charitable efforts, undermining its growth and development potential.

Due to the unique and sensitive nature of NPOs—particularly their reliance on donor trust, access to large funding sources, the volume of cash transactions, challenges in verifying the ultimate use of funds, and the limited expertise of such organizations in combating financial crimes—the sector may be vulnerable to exploitation.

In line with its ongoing commitment to developing and safeguarding the NPO sector, the National Center for the Development of the Non-Profit Sector (NCNP) has issued the 'Rules on the Beneficial Owner of Associations and Associations' under Paragraph (b) of Article 24 of the Anti-Money Laundering Law. These rules empower regulatory authorities, including the NCNP, to require information deemed necessary for their supervisory functions. The rules also implement Recommendation 24 of the Financial Action Task Force (FATF) concerning the 'Transparency and Beneficial Ownership of Legal Persons.'

Objectives

This guidance aims to clarify the concept and scope of the 'Beneficial Owner' in relation to associations and Associations in the Kingdom of Saudi Arabia, and to outline associated obligations and requirements. It is designed to facilitate understanding and implementation of these requirements by NPOs.

Relevant Laws and Regulations

This guidance is based on a set of relevant laws and regulations that non-profit organizations and their governing bodies must be familiar with, including:

- Rules on the Beneficial Owner of Associations and Associations
- Anti-Money Laundering Law (Royal Decree No. M/20)
- Law on Combating Terrorism and Its Financing (Royal Decree No. M/21)
- Law on Associations and Associations (Royal Decree No. M/8)
- Implementing Regulations of the Anti-Money Laundering Law
- Implementing Regulations of the Law on Combating Terrorism and Its Financing
- Implementing Regulations of the Law on Associations and Associations

Scope of the Guidance

This guidance applies to non-profit organizations, specifically associations, Associations, and charitable endowments.

Definitions

The following terms, wherever they appear in this guidance, shall have the meanings assigned below unless the context indicates otherwise:

- **Law:** Law of Civil Society Associations and Organizations issued by Royal Decree No. (D/8), dated 19/02/1437 AH.- **Center:** The National Center for the Development of the Non-Profit Sector.
- **Beneficial Owner:** it refers to the natural person or persons who ultimately own(s) or exercise(s) ultimate effective control, directly or indirectly, over the civil association or organization.
- **Association:** Civil Association.
- **Organization:** Civil Organization.
- **NPO:** both Civil Organization and Civil Organization.
- **Board of Directors:** The board of directors of an association.
- **Board of Trustees:** The board of trustees of an Association.

- **Rules:** Rules on the Beneficial Owner issued by the NCNP.
- **Executive Officer:** The person responsible for the executive body, whether an Executive Director, General Manager, Secretary General, or other.
- **Disclosure Form:** A form prepared by the Center to collect Beneficial Ownership information from an association or organization.
- **Beneficial Ownership Register:** An internal database within the Center in which beneficial ownership information is recorded.
- **Guidance:** This Guidance Document on Beneficial Ownership for Associations and Organizations.

Meaning of the Beneficial Owner

The concept of 'Beneficial Owner' is linked to transparency obligations under national and international frameworks. The Anti-Money Laundering Law and the Law on Combating Terrorism and its Financing define a Beneficial Owner as *"a natural person who ultimately owns or controls a client or on whose behalf a transaction is conducted, including for financial institutions, DNFBPs, or non-profit organizations"*.

It is evident from the aforementioned definition that the beneficial owner is the natural person who effectively owns or exercises control over an association or Organization. Unlike commercial companies or profit-driven institutions, associations and Organizations do not operate on the basis of ownership shares or equity. This raises an important question: How can a person be said to own or exercise direct or indirect, effective, and ultimate control over a non-profit organization?

To answer this, it is necessary to distinguish between the concepts of ownership and control.

Ownership refers to the situation where a natural person—or group of natural persons—holds a 25% or greater ownership interest or voting rights in a legal person, such as a company or commercial entity. However, given the nature of non-

profit organizations in the Kingdom, the concept of ownership does not apply to them under any circumstances.

Control, on the other hand, refers to a situation in which a natural person—or multiple natural persons—possess the authority or influence over a legal person, thereby enabling them to direct or determine its key strategic decisions. This concept can apply equally to both profit-oriented and non-profit entities.

Accordingly, and based on the above, the concept of the beneficial owner as applied to associations and Organizations is determined through the criterion of **control**. In this context, a beneficial owner is defined as: **The natural person or group of natural persons who exercise control over the strategic direction and decision-making of the association or Organization.**

It is important to emphasize that this concept does not refer to the beneficiaries of the association or Organization, such as the poor or those in need who receive charitable aid. Rather, it refers to those individuals who hold powers that allow them to influence or control the organization's direction and decisions, and who may potentially abuse such powers for illicit purposes.

Who is the Beneficial Owner in Non-Profit Associations and Associations?

In light of the aforementioned concept, it becomes apparent that several positions within associations and Organizations may fall within the scope of beneficial ownership. These include: the Board of Directors, the Executive Officer, and individuals in leadership roles. Article Five of the Rules explicitly identifies the following roles as constituting beneficial owners—whenever the criteria of beneficial ownership are met—in the order of precedence listed below:

1. Every member of the board of directors of a civil association and every member of the board of trustees of a civil organization.

2. Every director and senior officer of a civil association and civil organization
3. Any natural person that does not qualify under paragraphs (1) or (2) but who has the power to appoint or remove a civil association or organization's senior officers or directors or to otherwise directly or indirectly exercises control over an organization or associations' general activities.

The order of precedence reflects the degree of authority each position holds. Members of the Board of Directors or Board of Trustees typically possess the most substantial powers, particularly in financial and strategic matters. These may include, for example, managing bank accounts (including opening, closing, and activating them), issuing and approving checks, updating banking records, disposing of organizational assets through sale, purchase, or lease (subject to General Assembly approval), mortgaging or borrowing funds, accepting or rejecting wills, donations, endowments, and memberships, formulating investment policies for surplus funds, preparing the organization's financial budget, and approving general and strategic policies. Furthermore, the board is responsible for approving the organizational structure, internal controls, oversight mechanisms, and appointing the Executive Officer and senior staff.

Following this are the authorities granted to the Executive Officer and subsequently to individuals in leadership roles. Taken collectively, the powers held by the Board of Directors are considered the most influential.

One may inquire: what about the General Assembly and its authorities?

In both its ordinary and extraordinary forms, the General Assembly does hold certain influential financial powers, such as approving the external auditor, authorizing the Board to dispose of the association's assets, or investing surplus funds. It also retains certain sensitive non-financial powers, including approving amendments to the bylaws, dissolving or merging the association, and electing the Board of Directors.

However, it is important to note that the General Assembly typically has no upper limit on its membership, which may range in the hundreds or even thousands.

Practically speaking, it would be neither feasible nor appropriate to classify all General Assembly members as beneficial owners. Furthermore, the General Assembly convenes infrequently—typically two or three times a year—only upon public notice and with the Center’s approval. Unlike the Board or Executive Officer, General Assembly members do not possess direct or regular access to the organization’s daily operations or financial transactions. Accordingly, they are not to be considered beneficial owners.

As for the third criterion—any natural person who is not a board member, trustee, executive, or staff member, yet who holds the authority to appoint or remove the Executive Officer or leadership personnel, or who exercises effective control over the organization’s general activities—such a person also qualifies as a beneficial owner.

For example, consider an association governed by a duly elected and transparent board. However, a major donor—holding no formal role—contributes nearly half of the association’s annual budget. This donor conditions their support on the organization directing its programs in alignment with their corporate projects and threatens to withdraw funding if their terms are not met. In effect, this donor exercises de facto control over the organization’s strategic direction and is therefore considered a beneficial owner under the third criterion.

This same principle applies to other natural persons who may exert direct or indirect influence or control over the organization or its leadership—such as a media figure, social influencer, key supplier, or commercial sponsor.

What if a Beneficial Owner is a Legal Person?

The Implementing Regulations of the Law on Associations and Organizations define associations and Organizations as entities composed of natural persons, legal persons, or a combination of both. The same regulations state that the General Assembly of an association may likewise comprise members who are either natural or legal persons. Accordingly, it is theoretically possible for a member of the Board of

Directors or Board of Trustees to be a legal person, which may also fall under the third criterion of beneficial ownership, as previously outlined.

Moreover, Article 17, paragraph (e), of the Civil Transactions Law (Royal Decree No. M/191 dated 29/11/1444H) clarifies the categories of legal persons. Among those listed are: charitable associations, cooperative societies, and Organizations granted legal personality under statutory provisions.

Article Five of the Rules stipulates:

“In the event that a member of the Board of Directors or Board of Trustees is a legal person, the beneficial owner in such case shall be the natural person who is the beneficial owner of that legal person, as per the relevant laws and regulations.”

Example:

There exists an association (Entity A), governed by a Board of Directors composed of several members.

Among those members is a legal person—namely, a company (Entity B).

By applicable regulations:

The beneficial owner of Company B is the natural person (Person C) who was previously disclosed to a competent government authority as such.

Consequently, Person C, being the beneficial owner of Company B, is also deemed the beneficial owner of Association A.

To further clarify:

Association A does not directly include Person C in its organizational structure. However, Company B, which holds a seat on the board of Association A, has declared Person C as its beneficial owner.

Therefore, Person C is considered the beneficial owner of all entities under the effective control of Company B—including Association A, which it represents on the board.

In-summary:

If a board member of Organization A is a legal person—namely, Company B—then the beneficial owner of Organization A is the natural person (Person C) who is recorded as the beneficial owner of Company B by the competent authority to which it reports.

Beneficial Owner Information

Article Six of the Rules stipulates the obligation to register beneficial ownership information, which is divided into two categories:

First: Basic Organizational Information

This includes details related to the non-profit organization itself, as follows:

- a. The official name of the association or Organization, as registered with the Center.
- b. Its legal form—i.e., whether it is an association, a Organization, or a fund.
- c. The address of its main headquarters, registration number, primary and secondary classifications, and the relevant technical supervisory authority.
- d. A list of members of the Board of Directors or Board of Trustees, as well as individuals in leadership positions, including the Executive Officer.
- e. The organization's basic charter or bylaws (for associations, Organizations, or funds).

Second: Personal Information of the Beneficial Owner

This includes identifying details of the individual deemed to be the beneficial owner:

- a. Full name as stated on the national identification card.

- b. Nationality.
- c. National identification number, as stated on the ID card.
- d. Date of birth (Hijri calendar), as recorded on the ID.
- e. Place of birth, as indicated on the ID.
- f. ID version number.
- g. National address.
- h. Mobile phone number.
- i. Email address.
- j. Date on which the individual became a beneficial owner of the association, Organization, or fund.
- k. The justification or basis under which the individual is considered a beneficial owner (i.e., which criterion from Article Five of the Rules applies?).

Beneficial Owner Information: When the Owner is a Legal Person

If beneficial ownership is exercised through a legal person, the following information is required:

- Name and type of the legal entity (e.g., company, endowment).
- Registration/license number.
- Supervisory authority for the legal entity.

Submitting Beneficial Owner Information to the Center

Article Eight of the Rules requires that each association or Organization submit its beneficial ownership information to the Center using the designated Disclosure Form. This form includes all the required details pertaining to the beneficial owner, and it

must be completed by the organization through the Center's official electronic channels.

The responsibility for submitting this information to the Center lies with the Executive Officer of the organization. The Executive Officer is also accountable for ensuring that the beneficial ownership data provided is complete, accurate, and up to date. They are required to take all necessary actions and precautions to verify the accuracy of the information before submitting it.

Additionally, organizations must cooperate with the Center in identifying the beneficial owner and must respond to any request for supporting documents or records—such as providing access to files—within a period not exceeding five (5) days.

Retention of Beneficial Owner Information

Article Eight of the Rules further requires that the NPOs retain all records, documents, files, and data related to their beneficial owners for a period of no less than ten (10) years from the date of the organization's dissolution or termination.

Updating Beneficial Owner Information

NPOs must update beneficial ownership data within 10 days of any change. Beneficial owners must respond to information requests within 5 days.

Consequences of Non-Compliance

Article Eleven of the Rules stipulates that violations of these Rules shall be subject to the penalties outlined in the applicable law and shall apply to any association, Organization, or natural person acting on its behalf. When imposing penalties, consideration shall be given to the severity and frequency of the violation.

The applicable sanctions are those prescribed under Article 86 of the Implementing Regulations of the Law on Associations and Organizations, which include the following measures against the organization itself:

A formal warning;

Suspension of its activities;

Merger with another NPO;

Dissolution of the NPO.

As for individuals affiliated with the NPO, the following penalties may be imposed:

Temporary suspension from duties;

Permanent disqualification from holding any position or running for office in any other NPO;

Dismissal of the Board of Directors or any of its members, with the appointment of an interim replacement.

Frequently Asked Questions

▪ **Is the beneficial owner the same as the beneficiary of the NPO's services?**

→ No. The beneficiaries of the organization's services (e.g., the poor or needy) are not considered beneficial owners. A beneficial owner is a person who exercises direct or indirect control over the NPO, as previously explained.

▪ **Is the beneficial owner necessarily a donor or funder of the NPO?**

→ Not necessarily. While a donor or funder may be considered a beneficial owner if they exercise a certain degree of control or influence over the NPO's decisions, not all donors qualify as beneficial owners by default.

▪ **What kind of responsibility does a beneficial owner bear?**

→ A beneficial owner bears responsibilities similar to those of board members or

individuals in leadership positions, such as safeguarding and enhancing the NPO's financial resources and managing its assets. Any failure to uphold these responsibilities—including those related to beneficial ownership obligations—will subject the individual to the same penalties previously outlined.

- **What is the purpose of identifying the beneficial owner?**
→ Generally, it is to ensure that NPOs are not exploited or controlled for illicit purposes.