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STATUTORY PRECONDITIONS FOR INITIATING INSOLVENCY PROCEEDINGS: AN ANALYSIS OF FORMAL ADMISSIBILITY UNDER SAUDI LAW

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ABSTRACT

In the realm of insolvency jurisprudence, the distinction between procedural admissibility and substantive merit is paramount. While economic discourse often focuses on the financial rehabilitation of distressed enterprises, the legal safeguards embedded within the initiation phase of bankruptcy proceedings remain under-theorized. This study investigates the normative role of "formal applications" within the Saudi Bankruptcy Law as a critical shield for the debtor. By employing a procedural-analytical methodology, the research argues that the Saudi legislator has elevated administrative and formal filing requirements from mere bureaucratic protocols to substantive protective rights. These "statutory preconditions" function as a judicial filter, preventing premature or malicious liquidation attempts and ensuring that debtors are afforded due process and notification before the adjudication of insolvency. The paper concludes that strict adherence to these formal requisites operationalizes the legislative intent to prioritize rescue over liquidation by ensuring transparency and preparedness at the procedural threshold.

KEYWORDS: Procedural Admissibility, Due Process, Saudi Bankruptcy Law, Insolvency Initiation, Judicial Scrutiny, Formal Requirements.

1. INTRODUCTION

The architecture of modern insolvency law is predicated on a delicate equilibrium between the creditor's right to enforcement and the debtor's right to rehabilitation. Contemporary legal scholarship increasingly recognizes that "protection" is not solely a product of the final judicial verdict but is intricately woven into the procedural fabric of litigation itself. The premature or procedurally defective initiation of bankruptcy proceedings can cause irreparable reputational and operational damage to a commercial entity, triggering a "stigma of failure" that accelerates collapse regardless of the enterprise's actual viability.

Against this backdrop, the Kingdom of Saudi Arabia has instituted a robust legal framework governing commercial stability. The Saudi Bankruptcy Law represents a paradigm shift towards a regulated rescue culture. However, a critical yet frequently overlooked component of this framework is the rigorous regimentation of the application phase. The law mandates strict compliance with formal preconditions before the court entertains the merits of a bankruptcy petition.

This procedural rigor aligns with the Kingdom's broader regulatory philosophy. As noted in recent scholarship, the Saudi legal system is undergoing a transformation that "operationalizes principles of prevention and oversight to protect life, property, and the environment through clear frameworks" (Alasmari & Zurib, 2025). In the context of bankruptcy, this "prevention" is manifested through the requirement of notifying the debtor and fulfilling specific documentary formalities, thereby eliminating the element of surprise and ensuring that litigation rules are transparently applied.

1.1. Research Problem and Significance

Insolvency regimes are historically criticized for being "creditor-centric," often weaponized as aggressive debt-collection tools. The research problem addresses the lacuna in understanding how procedural formalism serves as a counter-balance to this power asymmetry. **The significance of this study is threefold**

1. Transparency: It elucidates how formal requirements grant all parties visibility, transforming the bankruptcy process from an adversarial ambush into a structured legal inquiry.
2. Judicial Economy: It highlights how these preconditions allow the judiciary to filter non-viable or malicious applications summarily.
3. Debtor Protection: It reframes "administrative

filings" as essential rights that protect the debtor's legal standing.

1.2. Methodology

This article adopts a black-letter legal analysis (doctrinal approach) combined with a procedural inquiry. It inductively examines the statutory text of the Saudi Bankruptcy Law and its Implementing Regulations to extract the rules governing the admissibility of applications across various bankruptcy procedures.

2. JURIDICAL NATURE OF FORMAL APPLICATIONS

To understand the protective scope of the law, one must first distinguish between the "Right of Action" and the "Admissibility of the Application."

2.1. The Concept of Formal Admissibility

Saudi legislation, akin to other civil law jurisdictions, differentiates between procedural validity and substantive truth. A formal application is defined not by the validity of the debt itself, but by the adherence to the statutory steps required to seize the court's jurisdiction.

- Procedural Definition: In the absence of a specific definition in the Bankruptcy Law, this study defines formal applications as "the cumulative set of procedural steps and documentary evidence that a petitioner must satisfy to establish locus standi and overcome the threshold of judicial dismissal."
- The Protective Function: By mandating these forms, the law creates a "cooling-off" period and a verification stage. The judge assesses the form before the substance (Cornu, 2007). If the form is defective, the case is dismissed without exposing the debtor to the rigorous scrutiny of their financial books in open court.

2.2. The Legal Status of the "Bankrupt"

The prerequisite for these applications is the status of the debtor. The law defines the bankrupt as a "debtor whose debts have absorbed all of his assets." However, proving this status requires more than a mere allegation; it requires a formal submission of evidence as a precondition for the case to proceed.

3. PROCEDURAL PROTECTIONS IN REORGANIZATION CONTEXTS

The law applies different levels of procedural scrutiny depending on the severity of the procedure requested. The most protective measures are found

in reorganization (rescue) procedures.

3.1. Admissibility in Preventive Settlement

The Preventive Settlement procedure is unique as it is a debtor-driven initiative. Here, the formal requirements serve a self-regulatory function.

- **The Filing Threshold** The debtor must submit specific financial disclosures and a proposal outline. The court's review of these formal documents acts as a quality control mechanism.
- **Protection against Frivolous Filing** By demanding rigorous documentation, the law prevents debtors from filing for settlement merely to stall creditors without a viable plan. This protects the debtor's credibility and the integrity of the market. The court has the authority to reject the application purely on formal grounds if the statutory criteria are not met, thus saving the debtor from entering a doomed process.

3.2. Admissibility in Financial Restructuring

Financial Restructuring involves a higher degree of intervention, often involving a trustee. The application may come from the debtor, a creditor, or a competent authority.

- **The Notification Requirement** A key formal requirement here is notification. If a creditor files the petition, strict formal rules ensure the debtor is notified and given a statutory period to respond before the court rules on opening the procedure.
- **The "Stop-Gap" Mechanism** The formal review allows the court to determine if the "likelihood of financial viability" exists based on the initial filings. This prevents the imposition of a trustee on a company that might effectively be solvent but facing temporary liquidity issues, or conversely, one that is hopelessly insolvent and should be liquidated. The formality here acts as a triage system.

4. PROCEDURAL PROTECTIONS IN LIQUIDATION CONTEXTS

When the objective is the dissolution of the enterprise, the procedural safeguards become the debtor's last line of defense against the premature extinguishment of legal personality.

4.1. Admissibility in Standard Liquidation

Liquidation aims to inventory and sell assets. Because the consequences are terminal, the formal

threshold is elevated.

- **Judicial Verification** The court does not automatically grant a liquidation order upon a creditor's request. It must verify the formal submission of debt proofs and the inability to restructure.
- **Binding Formalities** The law imposes these requirements on all parties. A creditor cannot bypass the documentary requirements simply because the debt is undisputed. This formalism protects the debtor from aggressive creditors who might use liquidation threats as leverage, ensuring that only legitimate insolvency cases proceed to the liquidation phase.

4.2. Admissibility in Administrative Liquidation

Administrative Liquidation addresses small debtors or asset-poor estates, managed by the Bankruptcy Commission.

- **The Role of the Commission:** The procedure here shifts partially from the court to the Commission, but the formal protections remain.
- **Specific Notification Rules:**
 1. **If the Competent Authority files** The court must notify the debtor within five days. This specific timeframe is a statutory right; failure to notify renders the procedure defective.
 2. **If the Debtor files** The debtor is burdened with notifying creditors. This ensures transparency.
- **The Hearing Requirement:** The court must set a hearing within 40 days. The requirement to notify the parties of this hearing is a fundamental due process right. The ruling to open the procedure triggers a stay on the debtor's management, but this only occurs after the formal prerequisites (application, notification, hearing) are satisfied.

5. CONCLUSION

5.1. Findings

The inductive analysis of the Saudi Bankruptcy Law reveals that "formalism" is not an obstacle to justice, but a pillar of it.

1. **Pre-Commencement Protection** The mechanism of formal admissibility protects the debtor's rights before the substantive engagement begins. It acts as a buffer against surprise and abuse of process.
2. **Legislative Seriousness** The detailed regulation of timelines (5 days, 40 days, 60 days) and documentary requirements evidences the Saudi

legislator's intent to professionalize insolvency practice. It ensures that no merchant is declared bankrupt through a summary or opaque process.

5.2. Recommendations

To maximize the efficacy of these protections, this study recommends

- **Procedural Literacy** Enhancing the legal literacy of the business community regarding these

formal requirements. Stakeholders must understand that a procedural defense (e.g., lack of proper notification) can be as powerful as a substantive defense.

- **Digital Standardization** The continued development of digital filing platforms to automate the verification of these formal requirements, reducing human error and ensuring uniform application of the law.

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