

Capital Markets - United Arab Emirates

Amendments to UAE Companies Law

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Introduction

The majority of close-held firms in the United Arab Emirates are owned by UAE national families, and over the years the larger of these family-owned businesses have grown into substantial international business groups. One reason for this growth is the agency legislation which requires domestic distributors to be wholly owned by UAE nationals or by corporate entities that are wholly owned by UAE nationals, thus requiring foreign companies that wish to establish distributorships in the United Arab Emirates to appoint a UAE national or wholly owned UAE entity as distributor. Some of the largest unlisted businesses in the United Arab Emirates are family owned.

Pursuant to the UAE Commercial Companies Law (Federal Law 8/1984, as amended), if a UAE family-owned business wishes to convert to a public company and list its shares on a stock exchange in the United Arab Emirates, it must sell a minimum of 55% of its shares to the public, thus effectively losing control of the business.

Amendment to Shareholding Ceiling

On August 29 2007 President Shaikh Khalifa Bin Zayed Al Nahyan approved Federal Law 10/2007. The law amends certain provisions of the Commercial Companies Law relating to (i) family-owned businesses and the ceiling of retained shareholding on the conversion of such family-owned business into a public company, and (ii) the initial public offering (IPO) of the shares of such a newly created public company.

Article 1 of the law adds a new section to the present Article 273 of the Commercial Companies Law, and defines a UAE 'family-owned business' as an entity wholly owned by members of one UAE national family, which extends to the fourth generation of such a family.

The law also provides for UAE family-owned businesses that convert into public companies and list on a stock exchange in the United Arab Emirates to retain a maximum of 70% of the shares of such a public company, and to list a minimum of 30% of its shares.

The law has not yet been published in the *Official Government Gazette*, and will come into effect on the date of its publication therein.

Expected Impact of the Law

By abolishing the rule requiring family-owned businesses to sell their majority shares on an IPO, the law is expected to lead to an increase in IPOs, since family-owned businesses wishing to raise public funds have thus far been deterred from doing so due to their consequential loss of control of the company. Such an increase in IPOs would be a welcome boost to the UAE stock market, which has been under pressure along with regional stock markets.

For further information on this topic please contact [Pier Terblanche](#) at Key & Dixon by telephone (+97 14 332 3324) or by fax (+97 14 332 3325) or by email (pier.terblanche@keydixon.com).

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