

## Company & Commercial - United Arab Emirates

### Minimum Share Capital Requirements for LLCs Amended

September 28 2009

#### Amendment to Companies Law

#### Impact

#### Reason

#### Comment

The federal government has issued a decree amending Article 227 of the Commercial Companies Law (8/1984), with the effect of abolishing minimum share capital requirements for limited liability companies (LLCs) in the United Arab Emirates.

#### Amendment to Companies Law

Prior to the amendment to the Companies Law, LLCs were required to have a minimum share capital of Dh300,000 in Dubai and Dh150,000 in the other emirates, which was to be divided into equal shares of a minimum value of Dh1,000 each.

According to the amendment, which applies retroactively to LLCs set up on or after June 1 2009, shareholders have the right to determine the share capital of their LLCs, provided that the LLC has sufficient capital to achieve its objects. Shareholders also have the right to determine the par value of the shares, as no minimum amount is prescribed.

#### Impact

The amendment to Article 227 also affects other provisions of the Companies Law, as set out below.

Article 255 of the Companies Law requires an LLC to retain 10% of its net profit in each year in order to create a statutory reserve, thus leaving the remaining 90% of profits to be distributed as dividends. Once the statutory reserve amounts to half of the LLC's share capital, shareholders may suspend the retention of such profits, thus allowing all future profits to be distributed as dividends. If, following the above legislative amendment, an LLC is established with a minimal share capital, it is likely that shareholders will have a larger pool of funds to be distributed as dividends, as the retention of half the share capital ought to be easier and quicker to attain.

Article 289 of the Companies Law, which relates to the dissolution of an LLC, provides for a trigger event for dissolution by the shareholders if the LLC sustains losses amounting to half its capital. Any new LLC incorporated with a minimal share capital may easily reach these prescribed losses, resulting in the winding-up of the LLC (unless the shareholders elect to recapitalize the LLC).

#### Reason

It is intended that the amendment will ease the process of establishing a business in the United Arab Emirates (eg, a share capital certificate from a local bank confirming the deposit of the minimum share capital need no longer be produced to the authorities to incorporate an LLC), and make it less costly, thereby stimulating economic growth by encouraging, in particular, small and medium-sized enterprises to establish businesses in the United Arab Emirates. However, it remains to be seen whether this amendment to the Companies Law will be sufficient to result in such growth. Indications are that more radical changes to the law will be required, such as the long-awaited easing of the restriction on the percentage of equity that may be owned by foreigners in UAE LLCs (for further details please see "[Restrictions on Foreign Ownership of UAE Companies Reviewed](#)").

Despite the amendment to the Companies Law, the UAE authorities may continue to impose minimum share capital restrictions in respect of certain activities or objects for which an LLC is established. For example, an LLC established to undertake construction-related activities has historically required a higher share capital than that

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prescribed by the Companies Law. However, it is not yet clear how the changes will affect the requirements of the UAE authorities.

## Comment

While the amendment to the Companies Law may help to reduce the barriers to entry to the UAE market, changes to the foreign ownership requirements, which continue to be a live issue, would attract further foreign investment in the United Arab Emirates. Foreign ownership requirements remain an important issue for the federal government, and it has once again recently been reported in the media that such amendments to the Companies Law are under study and likely to be finalized and submitted to the Cabinet within the next few months.

Regardless of the desire or potential for future changes to the Companies Law, the removal of the minimum share capital requirement is a significant deregulatory measure.

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