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Family Offices in the DIFC

April 14 2009

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Background

In 2008 the Dubai International Financial Centre (DIFC) established a legal and regulatory framework for family offices working in the centre as part of its new Family Office Initiative, which aims to provide comprehensive infrastructure solutions for families and family businesses operating in the Middle East.

A family office may be described as a private office set up by a single family for the purpose of managing the wealth and assets of that family. Family offices are popular legal entities in the Middle East due to the large number of businesses that are family owned. Reportedly, approximately 75% of businesses in the region are family owned, with an estimated total value of between $500 billion and $1 trillion.

Due to the increasing number of wealthy families and family-owned businesses in the Middle East, the DIFC has recognized the need for family offices to be established both to safeguard the assets of such families and to allow for the family to plan for the next generation of family members. Family businesses face a number of increasingly complex challenges, including:

- globalization;
- the growing number of family members in each generation;
- business and company growth;
- succession plans;
- business continuity; and
- corporate governance.

Approximately 95% of family businesses do not survive the third generation of ownership, primarily due to lack of succession planning.

DIFC Regulations

The DIFC Family Office was created to promote the DIFC as an ideal domicile for family offices. The DIFC aimed to establish an environment that combines a strong legal and regulatory framework with a comprehensive offering of services required to operate a family office successfully.

In particular, the Single Family Office Regulations, which were enacted in 2008 by the DIFC in consultation with the Dubai Financial Services Authority, specifically address the needs of family-run institutions and govern the registration procedure and documentary requirements for a single family office.

Pursuant to the regulations, a single family office may be incorporated or established in the DIFC as a body corporate or a partnership for the purpose of providing services to a single family. The regulations offer distinct benefits to single family offices, as they exclude them from many of the regulatory restraints placed on conventional financial institutions established in the DIFC. According to the DIFC, this is on the basis that single family offices have no direct public liability, as all their shareholders are bloodline descendants of a common ancestor.

According to DIFC requirements, a 'single family' must:

- own a minimum of $10 million in investable or liquid assets;
- comprise either one individual or a group of individuals who are the bloodline descendants of a common ancestor or their spouses; and
- comprise members from no more than the preceding three direct generations of the

family in question.

A family office has restricted activities and may provide services only to:

- one or more family members;
- a family fiduciary structure;
- a family entity; or
- a family business.

Comment

Family businesses are dominant in the Middle East and are the key to long-term economic development, job creation and prosperity. The DIFC's new Family Office Initiative will help families to overcome challenges, manage their wealth and plan the succession of their business.

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