

## United Arab Emirates

# Update: 100% Foreign Ownership in Local Companies

### Amendment of the Federal Law No. 2 of 2015 on Commercial Companies

On 23 November 2020, by a Presidential Decree, the United Arab Emirates (“UAE”) has introduced extensive changes to Federal Law No. 2 of 2015 on Commercial Companies (“Companies Law”). The major change announced of course being the allowance of 100% foreign ownership in mainland/onshore (non-free zone) companies, therefore effectively annulling the need for a local Emirati majority shareholder. The UAE government has now announced that these amendments will be permitted starting 1st June 2021.

### Limitations to the 100% Foreign Ownership also under the Amended Companies Law

Mainland companies carrying out certain economic activities classified by the UAE government to have a ‘strategic impact’ will however remain subject to some level of Emirati participation. In line with the latest enactments, a UAE federal government committee has been created to identify the list of activities having ‘strategic impact’ and the appropriate controls. This list is yet to be published.

Despite the abolition of the requirement of a majority Emirati shareholder in UAE mainland companies on federal level, companies not undertaking economic activities of ‘strategic impact’ may nevertheless be subject to some degree of Emirati participation requirement in the share capital and/or the board of directors as determined and regulated by the competent Department of Economic Development in each Emirate. These regulations are still pending.

### Awaiting further Implementation Guidance and Regulation:

It is yet to be clarified by the competent authorities on federal and Emirate Level:

- which activities will be categorized as having ‘strategic impact’;
- what conditions and restrictions will be imposed by the Department of Economic Development (in each Emirate) on companies which do not carry out activities having a ‘strategic impact’; and
- the mechanisms and subsequent legislation for full implementation of the regulatory changes.

### New Standard of Corporate Governance:

Under the new regulation, all companies will also need to update their constitutional documents before 2 January 2022 in order to comply with the new standard of corporate governance procedures. As part of the amendments to the Companies Law, these changes include the procedures for holding and convening a general assembly as well as attendance quorum and voting requirements. Moreover, the Memorandum of Association needs to indicate a dispute resolution forum to resolve any dispute that might arise between the company and its shareholders.

Swiss Group will further monitor the situation and update on any changes and enhancements the UAE Government will publish.

Dubai, 20 May 2021

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