

UAE enacted new Federal Law no 2 of 2015 concerning Commercial Companies (CCL2015) which came into effect on 1<sup>st</sup> July 2015 and replaced Federal Law no. 8 of 1984 concerning Commercial Companies

It is mandatory for all companies to amend Memorandum of Association before 30<sup>th</sup> June 2016 to reflect and comply with changes introduced by CCL2015. Failure to amend the MOA may result into penalties and the company may be deemed to be dissolved.

**Some of the key changes brought in by CCL2015:**

| Subject Matter                   | Remarks  |
|----------------------------------|--|
| Applicability                    | <ul style="list-style-type: none"> <li>a. Not applicable to:               <ul style="list-style-type: none"> <li>- Companies excluded by resolution of UAE Federal Cabinet</li> <li>- Companies wholly owned by federal or local governments if a provision to that effect is contained in the MOA</li> <li>- Companies operating in oil, gas and power sector in which govt directly or indirectly owns 25% if the MOA contains special provision for same</li> </ul> </li> <li>b. Free zone entities / companies if they are prohibited from operating outside free zones. However if free zone entities are permitted to operate outside free zones, then CCL2015 would be applicable to such companies</li> </ul> |
| UAE national                     | Any transfer of shares reducing UAE national participation below 51% is invalid and not permitted  |
| Min shareholder                  | One shareholder (individual or a corporate entity) can form an LLC or one corporate entity can form a Private Joint Stock Company (Pr JSC)   |
| Activities                       | <ul style="list-style-type: none"> <li>a. LLC's or JSC's may be established as holding companies to conduct activities through subsidiaries</li> <li>b. Investment funds will have separate legal form &amp; personality</li> <li>c. Joint venture companies provisions deleted</li> </ul>   |
| Companies registrar              | Ministry of Economy shall issue regulation setting out the functions of the Companies Registrar which shall also maintain trade names register, hold company records and facilitate inspection of records as stipulated by the regulations   |
| Directors / Managers             | Any clause in MOA exempting the any director / manager from personal liability is void   |
| Financial year                   | First financial year shall be min of 6 months & max of 18 months. Subsequent financial years shall be of 12 month period.  |
| Accounting & audit               | <ul style="list-style-type: none"> <li>a. International accounting standards to be followed</li> <li>b. Accounting records shall be maintained at the head office for min period of 5 years</li> <li>c. Audit compulsory</li> </ul>  |
| Distribution of profits / losses | <ul style="list-style-type: none"> <li>a. MOA may specify share of profit / loss in ratio other than share of capital (but cannot be 0%age for any shareholder)</li> <li>b. A shareholder's stake, if based on his work, he may be paid profit share for his work contribution</li> <li>c. A shareholder has contributed share in cash or kind &amp; also work contribution, he may have profit share %age for his contribution in cash / kind and another profit share %age for work contribution</li> <li>d. A shareholder who has contributed only by work may be exempted from sharing loss provided remuneration for such work is not determined</li> </ul>   |
| Offences                         | New offences & increased penalties for many existing offences as well as personal liability for directors  |



**Key changes for Limited Liability Companies (LLC's)**

| Subject Matter                         | Remarks   |
|--|---|
| Shareholder                            | One natural person or a corporate entity may be the sole shareholder of LLC   |
| Shares for non- cash consideration     | Valuation of shares in kind to be assessed either by: <ul style="list-style-type: none"> <li>- Agreement of all shareholders &amp; duly approved by the Ministry of Economy or</li> <li>- By a financial consultant approved by the Ministry of Economy</li> </ul>  |
| Share pledge                           | Shareholders may pledge shares in LLC's in accordance with the company's MOA. Such pledge has to be notarized and should be entered in the commercial register  |
| Managers / Directors                   | a. No limit on maximum no of managers / directors (as against earlier limit of 5 managers / directors)<br>b. Managers / Directors may be removed by resolution at general assembly (simple majority unless a higher %age provided in the MOA)   |
| No compete by Managers / Directors     | A director / manager not permitted to manage other competing entity except with consent of shareholders at the general assembly meeting   |
| General assembly – invitation & quorum | a. To have a general assembly meeting at least once a year and within 4 months of the end of the financial year<br>b. 15 day notice period (instead of 21 days earlier)<br>c. Quorum: <ul style="list-style-type: none"> <li>- 1<sup>st</sup> meeting – shareholders holding 75% of the share capital</li> <li>- Reconvene within 14 days &amp; quorum 50% of the share capital</li> <li>- Reconvene after 30 days &amp; no min quorum</li> </ul> d. Resolution at general assembly shall be approved by simple majority of those represented at the meeting unless a higher %age provided in the MOA |
| Minutes of meeting                     | To maintain register of minutes of general assembly meeting at the head office of the company   |
| Amendment of MOA                       | Requires consent of 75% of the shares represented at the general assembly   |
| Applicability of JSC provisions        | Unless otherwise provided for, provision for JSC in CCL2015 shall also apply to LLC's   |

**Changes required in MOA of LLC's:**

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| 1. Shareholders details   |
| 2. Definitions  |
| 3. Share transfer process or restrictions, share pledge, right of first refusal                   |
| 4. Management, appointment of MD, powers, removal / appointment process / resolution              |
| 5. General meeting, notice period, quorum, resolution majority etc.                               |
| 6. Profit / loss share  |
| 7. Variation of MOA & dissolution of company - %age shareholder approval                          |
| 8. Misc provisions – dispute resolution, reserve fund utilization, liability of shareholders etc. |



**Key changes for Joint Stock Companies (JSC's):**

| Subject Matter       | Remarks  |
|----------------------|--|
| Share capital        | <ul style="list-style-type: none"> <li>a. Min AED 5 million for Pr JSC's and AED 30 min for PJSC</li> <li>b. Min 30% of shares may be offered to public in case of PJSC</li> <li>c. Authorized share capital in PJSC may not be more than twice the issued share capital</li> <li>d. Different classes of shares may be permitted by Federal Cabinet</li> </ul> <p>JSC's or their subsidiaries cannot provide financial assistance to shareholder to hold shares / bonds issues by the company</p> |
| Minority protection  | <ul style="list-style-type: none"> <li>a. Transactions with related parties having a value exceeding 5% of the share capital require shareholder approval</li> <li>b. Resolution invalid if passed for or against certain class of shareholder or to bring special benefit to a related party without consideration of interest of the JSC</li> </ul>  |
| Management           | By Board of Directors (min 3 and max 11 in case of PJSC) for max 3 year term. No limit on re-election.   |
| General assembly     | Notice period of 15 days   |
| Bonds                | Company may issue bonds for a value exceeding share capital  |
| Corporate governance | Ministry of Economy may issue regulation for corporate governance of Pr JSC having more than 75 shareholders and Securities & Commodities Authority shall issue regulations for PJSC corporate governance  |
| Auditor rotation     | Rotation after every 3 years max.  |

Whilst every effort has been made to ensure that the details contained herein are correct and up-to-date, it does not constitute legal, tax or other professional advice. We do not accept any responsibility, legal or otherwise, for any errors or omissions.



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The firm is registered in UAE Ministry of Economy & Commerce having offices in Dubai and Sharjah. The firm excels in offering accounting, audit services and host of consulting services.

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