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CLIENT UPDATE



Attention Israeli Investors: New legislative reform in the UAE will allow 100% foreign ownership of "on shore" businesses

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Israeli companies and businesspersons that are looking for business and investment opportunities in the United Arab Emirates (UAE), following the signature of the Abraham Accords, may benefit from the introduction of a wide range of economic reforms in the UAE.

The government of the UAE recently published a major reform, amending its current Federal Law No. 2 of 2015 on Commercial Companies (the "**Companies Law**"), with the aim of attracting foreign capital to the UAE by removing various restrictions on foreign direct investment in UAE companies. The new reform is expected to increase the number of foreign investors that enter the UAE market by improving the ease of doing business in the country.

Under the amended Companies Law, foreign investors will be able to establish wholly-owned (100%) "on shore" companies in the UAE (in certain specified economic sectors and activities).

Prior to this change, the establishment of wholly-owned foreign corporations in the UAE was allowed only within certain free trade zones (or within the service industry and professional services sectors, i.e. engineering, auditing, advocacy etc.), such as Abu Dhabi Global Markets Free Zone and Dubai International Financial Center, and companies established outside the free trade zones (i.e. "on shore"), had to be "controlled" by UAE nationals (i.e. UAE nationals should hold at least 51% of the share capital and appoint the chairman and majority of the members of the board of the company).

The UAE had previously endeavored to relax this requirement with the enactment of the Foreign Direct Investment Law in 2018. However, there was ambiguity surrounding its implementation as corresponding amendments were not made to the Companies Law at the time. The current amendments to the Companies Law has made the Foreign Direct Investment Law redundant and this has now been expressly repealed in this legislation.

In order to facilitate the implementation of the new reform, the Cabinet of the UAE published (Cabinet Resolution No. 16 of 2020) a "Positive List of Economic Sectors and Activities Eligible for Foreign Direct Investment and Percentage of their Ownership" (the "**Cabinet Resolution**").

The list attached to the Cabinet Resolution includes three sectors (Agricultural Sector, Manufacturing Sector and Services Sector) and 122 Economic Activities within the applicable sectors. The list also specifies the "Minimum Capital" required to be invested for establishment of a company in each applicable economic activity, as well as other specific restrictions ("FDI Requirements and Conditions") pertaining to some of these activities (in addition to any other restrictions and conditions set by the licensing authority and other legislation in force).

Other amendments to the Companies Law address issues related to the corporate governance of UAE companies (e.g. general meetings of shareholders, voting, quorum, amending the articles of association, IPOs, etc.).

The amendments pertaining to foreign ownership and control of UAE companies will come into force only six months after the date of publication in the official gazette (which occurred on September), and this date may be extended by the UAE Council of Ministers.

The Cabinet of the UAE also intends to publish a list of activities with a "strategic impact" that will continue to be subject to local control requirements to be stipulated by the Department of Economic Development of each emirate.

We invite you to contact our UAE team if you are considering investment opportunities in the UAE or if you have questions regarding the new reforms.

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