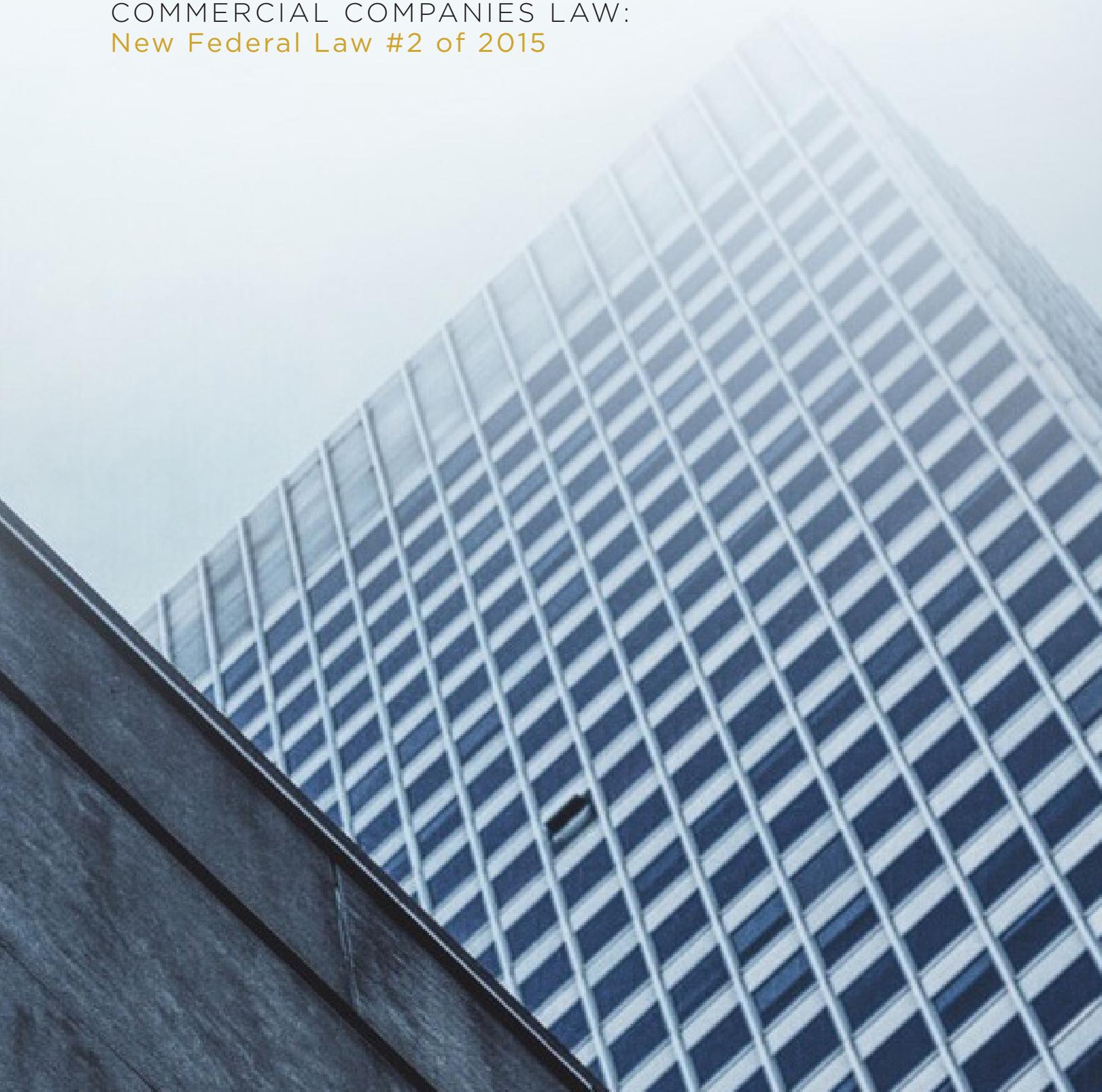


THE UNITED ARAB EMIRATES
COMMERCIAL COMPANIES LAW:
New Federal Law #2 of 2015



ARE YOU PREPARED?

The all-new United Arab Emirates Commercial Companies Law, the Federal Law #2 of 2015, was issued on 1 April 2015 with an effective date of 1 July 2015. The new law includes revisions that all companies should be aware of and it is as important as ever to obtain as much information as possible regarding the amendments as compared to the prior law and the action items necessary to maintain full compliance.

This publication provides a brief overview and some of the issued provisions that are relevant to our clients operating under a license by the Department of Economic Development in the respective Emirates that comprise the United Arab Emirates. Please refer to our contact details presented in this publication for further details.

Introduction

The United Arab Emirates all-new Commercial Companies Law, the Federal Law #2 of 2015 ("New CCL Law"), was issued on 1 April 2015 and supersedes the old Federal Law #8 of 1984 ("Old CCL Law").

According to Article 2 of the New CCL Law, the objective of the New CCL Law is to contribute to the development of the working environment and capacities of the United Arab Emirates and its economic position in regulating companies according to the various international norms related to governance rules and the protection of shareholders and supporting foreign investment and promoting the corporate social responsibility of companies.

It should be noted that the New CCL Law does not apply to free zone companies and establishments unless not covered by the relevant free zone authority rules and regulations.

Action Item

It is imperative that all entities within scope, such as a Limited Liability Company licensed by the Department of Economic Development, to update the existing Memorandum and Articles of Association prior to 1 July 2016 or will be deemed to be dissolved if no grace period is approved in advance.

Summary of New CCL Law

While the New CCL Law features prominent updates to the Old CCL Law, a large part of the fundamental framework of Old CCL Law are maintained.

A few of the features of the New CCL Law includes the following (not an exhaustive list):

- Rotate auditors every three years (only for Public Joint Stock Companies);
- Enabling sole shareholding for certain companies and Limited Liability Companies;
- Enabling the pledge of shares;
- Requiring specifically that "International Accounting Standards" to be applied in preparation of the financial accounts; and
- Requiring the quorum for general assemblies to be raised from 50% to 75% of the share capital (Limited Liability Companies).





Significant and Relevant Articles of New CCL Law

The following articles of the New CCL Law were compiled from the New CCL Law based on primarily accounting and finance related articles. In addition, those articles relating mainly to Limited Liability Companies are introduced below:

Article 26: Accounting Records

1- Every company shall keep accounting records showing its transactions to accurately reveal at any time the financial position of the company and enabling the partners or shareholders to confirm that the accounts of the company are properly kept in accordance with the provisions of this Law. 2- Every company shall keep its accounting books in its head office for a period of at least 5 (five) years from the end of the financial year of the company. 3- The company may keep an electronic copy of the original of the documents and records kept and deposited therein in accordance with the controls issued by a Ministerial Decision.

Article 27- Accounts of the Company

1- Every Joint Stock Company or Limited Liability Company shall have one or more auditors to audit the accounts of the company every year. The other types of companies may appoint an auditor in accordance with the provisions of this Law. 2- The company shall prepare annual financial accounts including the balance sheet and the profit and loss account. 3- The company shall apply the International Accounting Standards and Practices upon preparing its periodical and annual accounts, to give a clear and accurate view of the profits and losses of the company. 4- Every partner or shareholder in any company may, based on a written request presented, obtain a free copy of the last audited accounts and of the last report of its auditor and a copy of the accounts of the group if it is a holding company. The company shall respond to such request within 10 (ten) days from the date of submittal thereof.

Article 28- Financial Year of the Company

1- Every company shall have a financial year as determined in its Articles of Association, provided that the first financial year of the company shall not exceed 18 (eighteen) months, but at least 6 (six) months, to be calculated from the date of registration of the company in the Commercial Register with the competent authority. 2- The subsequent financial years shall consist of consecutive periods, each of 12 months commencing directly upon the expiry of the preceding financial year.

Article 29- Distribution of the Profits and Losses

1- If the company's Memorandum of Association does not stipulate the proportion of a partner in the profits or losses, his share thereof shall be pro rata to his stake in the capital. If the Memorandum of Association is limited to specifying a partner's share in the profits, his share in the losses shall be equivalent to his share in the profits and vice versa. 2- If a partner's stake is limited to his work, the company's Memorandum of Association shall specify his share in the profits and losses. If the partner has contributed a share in cash or in kind in addition to his work, he shall have a portion of the profits and losses for his share contributed by work and another portion for his share in cash or in kind. 3- If it is agreed in a company's Memorandum of Association that one of the partners is to be deprived of the profits or exempted from loss, or to receive a fixed percentage of profits, such Memorandum shall be deemed void. 4- It may be agreed to exempt a partner who has contributed only by his work from sharing in the loss, provided that a wage for such work is not determined.

Article 30- Distribution of Profits

1- No fictitious profits may be distributed to the partners or shareholders. The Board of Directors or any similar body shall be liable towards the partners or shareholders and the creditors of the company for such procedure. 2- If the company distributes any profits in violation to the provisions of this Law and the Decisions issued hereunder, such partner or shareholder shall return any profits

received by him in violation to such provisions. The company's creditors may request such partner or shareholder to return what he has received thereof, even if done in good faith. 3- Partners or shareholders shall not be deprived of the true profits that they have received even if the company sustains losses during the following years.

Article 79- Assignment or Pledge of the Share of a Partner in the Company

1- A partner may Assign or pledge its share in the company to another partner or to a third party. Such assignment or pledge shall be made in accordance with the terms of the Memorandum of Association of the company under an official document, in accordance with the provisions of this Law. Such assignment or pledge shall not be valid against the company or third parties until the date of its entry in the Commercial Register with the competent authority. 2- The company shall not reject then entry of such assignment or pledge in the register unless the transfer or pledge violates the provisions of the Memorandum of Association or this Law.

Article 94- Agenda of the Annual General Assembly

The Agenda of the Annual General assembly of a Limited Liability Company shall include the consideration and decision-making in the following issues: 1- The Managers' report regarding the activity and the financial position of the company during the ended financial year, the auditor's report and the Supervisory Board's report; 2- The balance sheet and the account of profits and losses and the approval thereof; 3- The profits to be distributed among the partners; 4- To appoint the Managers and to determine their remuneration; 5- To appoint the members of the Board of Managers (if any); 6- To appoint the members of the Supervisory Board (if any); 7- To appoint the members of the Internal Shariah Control Committee and the Shariah Controller if the company conducts its activity in accordance with the provisions of the Islamic Shariah; 8- To appoint and determine the remuneration of the auditor(s); and 9- Any other matters within the powers of the General Assembly in accordance with the provisions of this Law or the Memorandum of Association of the company.

Article 95-Attendance at the Meeting of the General Assembly

Irrespective of the number of the shares held by him, every partner shall have the right to attend the General Assembly in person and may delegate another partner who is not a manager or any other party that the Memorandum of Association permits to be appointed to represent a partner at the General Assembly to do so. Every partner shall have a number of votes equal to the number of the shares held or represented by such partner.

Article 96- Quorum for Convene and Voting

1- Quorum at the General Assembly shall not be valid unless one or more partners holding at least 75% of the capital of the company are present. 2- If such quorum as set forth in Clause 1 of this Article is not present at the meeting, the partners shall be invited to another meeting, to be held within 14 days from the date of the first meeting, provided that at least 50% of the capital is present at the meeting. 3- If quorum as set forth in Clauses 1 and 2 of this Article is not present, the partners shall be invited to a third meeting to be held upon the expiry of 30 days from the date of the second meeting. Quorum at the third meeting shall be valid irrespective of the partners present at the meeting. 4- The Decisions by the General Assembly shall not be valid unless passed by the majority of the partners present in person and those represented at the meeting, unless the Memorandum of Association provides for a higher majority.

Article 102- Auditor of the Company

A Limited Liability Company shall have one or more auditors to be elected by the General Assembly of the partners every year and, other than as provided by Article 244 of this Law, the provisions concerning the auditors in public joint stock companies shall apply to the auditor of a Limited Liability Company. The expression "Competent Authority" shall substitute the term "Authority" wherever it appears.

Article 103- The Legal Reserve

A Limited Liability Company shall set aside in every year 10% of its net profits to form a legal reserve. The partners may decide to stop such deduction if the reserve reaches half the capital.

Disclaimer

The purpose of this publication is to provide a high-overview summary of the New CCL Law, as published in the Official Gazette of the United Arab Emirates and is not meant to be a substitute for legal advice. Rather, the purpose of this publication is to highlight the upcoming effective date of the New CCL Law and a summary of certain revisions to highlight the urgency of becoming fully up to date on the requirements and amendments of the New CCL Law as soon as possible through consultation with your legal counsel.

Contact Us

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