ALERT MEMORANDUM

UAE Companies Law Update 2025: Multiple Share Classes and Other Modernized Tools for Investments and Exits

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On October 1, 2025, His Highness Sheikh Mohamed bin Zayed Al Nahyan, in his capacity as President of the United Arab Emirates ("**UAE**"), issued Federal Decree-Law No. 20 of 2025 (the "**Decree**"), which amended Federal Decree-Law No. 32 of 2021 on Commercial Companies (the "**CCL**")[1]. The amendments permit multiple share classes in limited liability companies ("**LLC**"), provide a statutory basis for drag-along and tag-along rights, introduce clearer processes for succession of shares and certain deadlock scenarios, and establish a framework for non-profit companies. Collectively, the changes modernize the CCL and increase the UAE's appeal for investors and sponsors.

This alert memorandum provides a high-level overview of the notable amendments to the CCL in the Decree and its practical implications. It does not purport to be an exhaustive summary of the Decree, the CCL or the laws and regulations applicable to UAE entities.

[1] The Decree was published in the Federal Gazette of the UAE No. 809 (Annex) dated October 14, 2025 and entered into force on October 15, 2025.

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I. Scope

The Decree expressly extends the scope of the CCL to foreign entities with a presence in the UAE and to free zone companies that conduct activities onshore in the UAE, while preserving their specialised legal and regulatory regimes. This aligns the CCL with recent developments enabling certain free zone entities to engage in business onshore[2], and ensures greater coherence across the UAE's corporate landscape.

II. Key Changes

We set out below some of the notable developments introduced by the Decree along with our thoughts on those.

Transaction Structuring

- **Multiple Share Classes**. For the first time, LLCs may issue multiple classes of shares with differing economic, voting and other rights (including entitlements to dividends, liquidation preference and redemption rights). This important development enables onshore UAE companies to adopt sophisticated capital structures, featuring venture capital arrangements (such as multiple series of preference shares with priority in returns), private equity-style structures (for example, separating economic participation from governance rights) and other tailored capital solutions. The detailed scope will be further set out in forthcoming implementing regulations.
- **Drag-Along and Tag-Along Rights**. Shareholder agreements commonly include drag-along rights, allowing the majority shareholders to compel minority shareholders to participate in a joint exit, and tag-along rights, enabling minority shareholders to sell simultaneously with, and on the same terms as, the majority shareholders. The Decree now expressly recognizes these concepts and permits LLCs and private joint stock companies ("**PrJSC**") to include them in their constitutional documents. However, in an LLC, the exercise of these rights remains subject to the pre-emption regime, which may affect their enforceability. In practice, parties should still consider having a more detailed drag-and-tag framework in shareholder agreements, including a waiver of pre-emption rights. Even so, these changes to the CCL help to strengthen the enforceability of these widely used exit arrangements.
- **In-Kind Contributions**. The valuation of in-kind contributions to private companies, including the approval of valuers, will be governed by standards and requirements to be issued by the Ministry of Economy ("**MoE**") in coordination with the competent local authorities. This establishes a clearer framework for valuing non-cash capital contributions made when onshore private companies are incorporated or undertake capital increases.

Capital Markets

- **Private Placement**. The Decree enables PrJSCs to raise capital in the UAE through private placements under forthcoming Securities and Commodities Authority ("**SCA**") rules, offering a regulated alternative to an initial public offering ("**IPO**"). It also allows the MoE to amend or waive the previously rigid 12-month founders' lock-up on share disposals. In addition, the statutory lock-up no longer applies where securities are offered by way of private subscription and listed on a UAE stock market, subject to complying with SCA's requirements. Together, these changes strengthen the PrJSC's appeal for raising capital from institutional investors, including in pre-IPO financing rounds.
- **Conversion**. The Decree substantially simplifies the conversion of an LLC into a joint stock

[2] Refer to Cleary Gottlieb's alert memorandum dated April 8, 2025 on how Dubai free zone establishments can operate in onshore Dubai.

company by allowing existing management, rather than a founders' committee, to lead the process (subject to shareholder approval and regulatory filings). It also removes the need to establish a board of directors or appoint an auditor as a pre-condition to conversion. This flexibility makes conversion more practical for companies preparing for a public listing or pursuing other capital-raising objectives.

Re-domiciliation. Companies are now allowed to transfer their domicile within the UAE, including between Emirates and between onshore and free zones. This enables businesses to optimise their regulatory or commercial set-up without dissolving and re-incorporating, setting up a new subsidiary with the subsequent transfer of all assets and liabilities or undertaking a similar restructuring. A re-domiciliated company retains its legal personality and existing rights and obligations, allowing it to remain party to its contracts and maintain its licences. However, implementation will depend on forthcoming Cabinet and local authority regulations, particularly for transfers involving the Abu Dhabi Global Market and the Dubai International Financial Centre.

Governance Considerations

- **Deadlock**. The Decree enhances governance continuity by allowing the relevant Emirate's licensing authority (such as the Department of Economy and Tourism in Dubai) to appoint independent, non-shareholder directors for up to one year when shareholders cannot agree on board appointments. This resolves a key weakness in the prior regime but also incentivizes parties to resolve a deadlock before an external appointment is made.
- **Succession**. LLCs and PrJSCs may now structure succession in their constitutional documents, in particular by allowing surviving shareholders, or the company, to acquire the deceased's shares. The valuation may be set by agreement or, if disputed, by court-appointed experts. Although judicial valuation may still affect timing, this reform helps preserve a stable shareholder base and reduce uncertainty for privately held (including family-owned) businesses.

Non-Profit Companies. The Decree creates a framework for non-profit companies, which must reinvest all revenues in accordance with their stated objectives and are prohibited from distributing profits to shareholders. The Cabinet will issue regulations detailing governance requirements, licensing criteria and permitted activities of non-profit companies. This reform provides a dedicated vehicle for social-impact and community initiatives, replacing the previously used *ad hoc* structures and reflecting the UAE's growing focus on this area.

III. Key Takeaways

The Decree meaningfully modernizes the statutory landscape for onshore UAE companies, creating a more flexible and sophisticated platform for investments and transactional activity. A key early step will be to assess existing or anticipated deal structures in light of the changes as many arrangements were historically built around limitations that the updated CCL may no longer impose. There may now be opportunities to simplify governance and better accommodate future financing and exit strategies.

Several elements of the Decree (including multiple share classes, private placements and re-domiciliation) will only take full effect once the necessary implementing regulations are issued. Sponsors, issuers and corporates should monitor these developments closely, as they will determine how the market can apply the new tools introduced by the Decree. In the interim, it may be helpful for businesses to plan structural adjustments while avoiding changes that may require revision once the implementing regulations are issued.

We continue to closely monitor further developments and would be pleased to discuss any aspects of the CCL amendments and how they can be advantageous to your business.

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