

## **Federal Decree-Law No. (37) of 2022**

### **On Family Companies**

**We, Mohamed bin Zayed Al Nahyan**

**President of the United Arab Emirates,**

- Having reviewed the Constitution,
- And Federal Law No. (1) of 1972 on the Competencies of Ministries and Powers of Ministers, and its amendments,
- And Federal Law No. (5) of 1985 promulgating the Civil Transactions Law, and its amendments,
- And Federal Law No. (10) of 1992 promulgating the Law of Evidence in Civil and Commercial Transactions, and its amendments,
- And Federal Law No. (11) of 1992 promulgating the Civil Procedures Law, and its amendments,
- And Federal Law No. (18) of 1993 promulgating the Commercial Transactions Law, and its amendments,
- And Federal Law No. (8) of 2004 concerning Financial Free Zones,
- And Federal Law No. (28) of 2005 on Personal Status, and its amendments,
- And Federal Law No. (7) of 2012 regarding the Regulation of the Expertise Profession before Judicial Authorities,
- And Federal Law No. (4) of 2013 on the Regulation of the Notary Public Profession, and its amendments,
- And Federal Decree-Law No. (9) of 2016 on Bankruptcy, and its amendments,
- And Federal Law No. (14) of 2016 on Violations and Administrative Penalties in the Federal Government,
- And Federal Law No. (6) of 2018 on Arbitration,
- And Federal Decree-Law No. (19) of 2019 on Insolvency,
- And Federal Decree-Law No. (32) of 2021 on Commercial Companies,

- And Federal Decree-Law No. (37) of 2021 on the Commercial Register,
- And based on the proposal of the Minister of Economy and the approval of the Cabinet,

**Have issued the following Decree-Law:**

## **Article (1)**

### **Definitions**

In the application of the provisions of this Decree-Law, the following words and phrases shall have the meanings assigned to each of them, unless the context otherwise requires:

**The State:** The United Arab Emirates.

**The Ministry:** The Ministry of Economy.

**The Minister:** The Minister of Economy.

**Companies Law:** Federal Decree-Law No. (32) of 2021 on Commercial Companies, or any other law that replaces it.

**Concerned Authorities:** Federal or local government authorities.

**Competent Authority:** The local authority concerned with company affairs in the relevant Emirate, including Free Zones.

**Free Zone:** The financial and non-financial free zones established in the State.

**Family:** Relatives by consanguinity and affinity.

**Family Company:** Any company established in accordance with the provisions of the Companies Law, the majority of whose shares or stocks are owned by persons belonging to a single family, and which is registered in the Register as a family company under the provisions of this Decree-Law. The Cabinet, upon the recommendation of the Minister, shall issue a decision defining what is meant by a single family.

**Memorandum of Association:** The memorandum of association of the family company, notarized by the concerned authorities.

**Family Charter:** The written document that regulates the governance of family affairs related to the family company, and the relationship of the family with the family company.

**The Register:** The unified register of family companies established in accordance with the provisions of this Decree-Law.

**Partner/Shareholder:** Any owner of shares or stocks in the family company.

**Share:** The share of a partner or the stocks of a shareholder in the family company.

**The Committee:** The Family Companies Dispute Resolution Committee, as stipulated in Article (20) of this Decree-Law.

**The Trustee:** The trustee appointed by the court in accordance with the Bankruptcy Law, the Insolvency Law, or the applicable legislation in the Free Zones, as the case may be.

## **Article (2)**

### **Objectives of the Decree-Law**

This Decree-Law aims to achieve the following:-

1. To establish a comprehensive and flexible legal framework for organizing the ownership and governance of family companies in the State, and to facilitate their transition between generations.
2. To support the continuity of family companies, and to enhance the role of the private sector in economic growth and community contribution in the State.
3. To provide appropriate mechanisms for resolving disputes related to family companies.
4. To enhance the contribution of family companies to the State's economy and its competitiveness.

## **Article (3)**

### **Scope of Application**

1. The provisions of this Decree-Law shall apply to any family company existing in the State at the time of its entry into force, or established after the entry into force of this Decree-Law, whose owners holding a

majority of its shares decide to register it in the Register as a family company under its provisions, and it may take any form of companies stipulated in the Companies Law, including a sole proprietorship, or the legislation applicable in the Free Zones, as the case may be.

2. Public joint-stock companies and general partnerships are excluded from the scope of application of this Decree-Law.
3. The provisions of this Decree-Law shall apply to family companies established in Free Zones to the extent that they do not conflict with the laws, regulations, and legislation of the respective Free Zone that are applicable to their organization, establishment, or registration therein, and all matters related thereto.
4. The provisions of this Decree-Law shall apply to family companies established within the jurisdiction of any Emirate of the State, unless there is local legislation in that Emirate regulating such companies. In this case, the application of the provisions of this Decree-Law shall be limited to aspects not regulated or provided for by the local law. The Emirate may, through local legislation or decisions issued by the competent authority in this regard, allow companies registered within its jurisdiction to register in the Register in accordance with the provisions of this Decree-Law.

## **Article (4)**

### **Register of Family Companies**

1. Family companies that meet the conditions and provisions set forth in this Decree-Law shall be registered in the Register established for this purpose at the Ministry in coordination with the Competent Authority, which may have its own register for the registration of family companies.
2. The Ministry shall issue a document confirming the company's registration in the Register as a family company, and any change that occurs to the family company's data upon its registration with the Competent Authority.
3. The Minister, after coordination with the Competent Authority, shall issue a decision regarding the data and documents to be included in

the Register and the procedures and controls for registering a family company in this Register.

## **Article (5)**

### **Memorandum of Association of the Family Company**

1. The memorandum of association of the family company shall be consistent with the texts and provisions contained in this Decree-Law, in addition to the provisions stipulated in the Companies Law or the legislation applicable in the Free Zones, as the case may be.
2. The Ministry shall prepare a guiding memorandum of association for the reference of family companies registered under the provisions of this Decree-Law.

## **Article (6)**

### **Family Charter**

1. The family may have a charter that includes specific rules regarding ownership, family objectives and values, mechanisms for share valuation and profit distribution methods, and the education and qualification of family members to work in the family company and its subsidiaries, as well as addressing family disputes related to the family company, and other rules and provisions.
2. The Charter may specify the minimum academic qualifications and practical experience required for partners and family members to work in the family company and its subsidiaries, provided that compliance with these standards is subject to audit by a committee reporting to the Family Council, if any.
3. In the event of a conflict between the memorandum of association and the Charter, the provisions of the memorandum of association shall prevail, and any provision in the Charter that conflicts with the memorandum of association or this Decree-Law shall be nullified.
4. The Charter shall be approved or amended by a majority of the members of the Family Council. If no such Council exists, then by a majority of the partners from the family.

5. The family company may deposit a copy of the Charter in the Register. The Minister shall issue a decision on the method of deposit, its controls, and requirements.
6. The Ministry shall prepare one or more guiding charters for the reference of the family.

## **Article (7)**

### **Ownership of the Family Company**

1. Notwithstanding the provisions of the Companies Law or the legislation applicable in the Free Zones, as the case may be, a family company may be owned by any number of partners.
2. The capital of the family company shall consist of shares that grant their owners equal or unequal rights to the company's profits, as agreed upon in the memorandum of association.
3. Shares in the family company may not be transferred except in accordance with the conditions stipulated in this Decree-Law.
4. The admission of any person to the family company shall be deemed as their acceptance of the provisions of its memorandum of association and its charter.

## **Article (8)**

### **Disposal of a Partner's Share**

1. If any partner wishes to dispose of their share in the family company, they must offer it to the other partners from the family. Exceptionally, they may transfer their share with or without consideration to their spouse or any of their relatives up to the first degree without offering it to the other partners, unless the Charter or the memorandum of association provides otherwise.
2. No partner may dispose of their share to a person outside the family except with the approval of partners owning no less than three-quarters of the capital, unless the memorandum of association stipulates another percentage. The selling partner and the remaining partners may agree that the shares to be sold be reclassified as Class

(B) shares, in accordance with the provisions of Article (12) of this Decree-Law, either temporarily or permanently, as long as the family company exists, as a condition for permitting the sale of shares to a person outside the family.

3. If a third party from outside the family acquires a partner's share in circumstances other than those stipulated in clause (2) of this Article, the remaining partners shall have the right, within (60) sixty days from the date of the third party's acquisition, to request the redemption of this share, each according to their share in the family company or more than their share if one or more partners do not wish to redeem, at the value agreed upon between them and the third party, or at the value determined by the Committee in case of disagreement. If none of the partners requests the redemption of that share, it shall be offered to the family company. If this share is not redeemed in whole or in part within (30) thirty days from the date it was offered to the family company, the third party shall then be enabled to own it.
4. In all cases, the transfer of shares shall be in accordance with the provisions of this Decree-Law and the legislation in force in the State.
5. The acquisition of a partner's share by a third party from outside the family in accordance with clause (3) of this Article shall not lead to the loss of the family company's status, provided that the ownership percentage of family members does not fall below a majority of the shares.

## **Article (9)**

### **Right of Redemption**

1. If one partner acquires a share of not less than (90%) of the family company's shares, they must notify the partners from outside the family of their desire to purchase their shares. These partners shall have the right to sell to them at a price agreed upon among them, or at the price determined by the Committee in accordance with clause (2) of this Article at the request of any of them in case of disagreement.

2. The shares shall be valued by the Committee in accordance with the mechanism stipulated in the memorandum of association or the Charter. If the memorandum of association or the Charter is devoid of such a provision, the share shall be valued by one or more experts with financial and technical expertise selected by the Committee at the buyer's expense.
3. If one partner acquires a share of not less than (95%) of the family company's voting shares, they must notify the remaining partners from the family of their desire to purchase their shares. These partners shall have the right to sell to them at a price agreed upon among them, or at the price determined by the Committee in accordance with clause (2) of this Article at the request of any of them in case of disagreement.

## **Article (10)**

### **Bankruptcy or Insolvency of a Partner**

1. In the event of the bankruptcy or insolvency of a partner in the family company, the procedures and controls applicable in the insolvency and bankruptcy laws in force in the State shall be followed, provided that any other partner shall have the priority right to purchase the partner's share at the price and within the period determined by the court hearing the bankruptcy or insolvency case.
2. If the partners do not acquire the share of the partner that has entered into bankruptcy as referred to in clause (1) of this Article, the provisions stipulated in the insolvency and bankruptcy laws in force in the State shall apply.

## **Article (11)**

### **Purchase of its own Shares by the Family Company**

1. A family company may purchase no more than (30%) of its own shares in the following cases:-
  - a. To reduce its capital.

- b. To purchase or redeem some or all of the shares of a partner who wishes to sell, or is bankrupt or insolvent, and there is no buyer or redeemer for these shares among the partners.
2. In all cases, it is required that partners representing a majority of the shares represented at the general assembly meeting of the family company approve this, unless the memorandum of association stipulates another percentage. The purchased or redeemed shares in this case shall not have a vote in the deliberations of the general assembly as long as they remain in the ownership of the family company.
3. The Minister, after coordination with the Competent Authority, shall issue a decision regarding the procedures for the family company's purchase of its own shares, in matters for which there is no specific provision under the Companies Law or the legislation applicable in the Emirate or in the Free Zones, as the case may be.

## **Article (12)**

### **Classes of Shares**

1. A family company may issue two classes of shares:-
  - a. Class (A) shares, which entitle the owner to the right to receive profits and to vote at the company's general assembly.
  - b. Class (B) shares, which entitle the owner exclusively to the right to receive profits without the right to vote.
2. The memorandum of association may stipulate the conditions governing the conversion of Class (B) shares to Class (A) shares or vice versa, subject to the passage of time or any other condition. It may also provide for the division of Class (A) or (B) shares into categories based on the number of votes or profits allocated to them. The sum of these shares must equal the total shares of the company.
3. In addition to what is stipulated in clauses (1) and (2) of this Article, the family company may provide in its memorandum of association for other classes of shares that differ in terms of value, voting power, profits, priority rights, and other rights or privileges, provided that the liability of the partner is commensurate with the rights and

privileges allocated to each class of those shares. The Minister, in coordination with the Competent Authority, shall issue a decision specifying the terms and conditions related to the multiple classes of shares.

## **Article (13)**

### **Distribution of Profits**

The family company must distribute a portion of its annual profits at the end of each fiscal year to its partners, each according to their share therein, unless the memorandum of association provides otherwise.

## **Article (14)**

### **Management of the Family Company**

1. The family company shall be managed by a manager appointed in the memorandum of association. If there is no such provision in the memorandum of association, a manager can be appointed by a subsequent decision of partners owning at least (51%) of the shares represented at the general assembly meeting, unless the memorandum of association stipulates another percentage. This manager may be one or more persons, whether from among the partners themselves or from outside, and may also be a legal entity. If there is more than one manager for the family company, at least one of them must be a natural person.
2. The memorandum of association of a limited liability family company may provide for the formation of a board of directors to manage the family company. Its members shall be named in the memorandum of association. If the memorandum is silent on this, the general assembly must name these members by a majority of the votes of those present. The memorandum of association may also include the rules, controls, and conditions governing the formation of the board of directors, its powers, term of membership, remuneration of its members, their removal, appointment of their replacements, the mechanism for its decision-making, its committees and their powers,

and the determination of appropriate personal and objective criteria for membership of the board and its committees, and other matters.

3. The board of directors, if any, shall have a chairman. The manager of the family company shall, in this case, report to the chairman of the board as a representative of the board, unless the memorandum of association provides otherwise. Membership of the board of directors and management of the family company may be combined, but the chairmanship of the board and management of the family company may not be combined.
4. The manager or member of the board of directors must be an adult of full legal capacity, of good conduct, and possess the knowledge and experience that can be reasonably expected from another person in the same position.

## **Article (15)**

### **Powers of the Manager**

1. Unless the manager's appointment contract, the company's memorandum of association, or its internal regulations restrict the powers granted to the manager, they may exercise the necessary powers and duties to manage the family company, including the following:-
  - a. The executive management of the family company.
  - b. Distributing the profits of the family company in the manner decided by the company's general assembly and stipulated in the memorandum of association and this Decree-Law.
  - c. Deducting from the profits or benefits payable to any partner the amounts that may be due from that partner to the family company.
  - d. Representing the family company before the Committee, the judiciary, and third parties.
  - e. Seeking the assistance of anyone they deem appropriate to help in managing the family company.

- f. Any other powers stipulated in the memorandum of association that do not conflict with the purposes of the family company and the laws in force in the State.
- 2. In the event of the death of a partner, the company's manager shall, unless the memorandum of association provides otherwise, act as the guardian of the deceased partner's shares, supervise the procedures for transferring their ownership to their heirs, each according to their legal share, and take measures to amend the memorandum of association, after settling any rights or debts that may be related to these shares in favor of the family company or third parties.

## **Article (16)**

### **Obligations of the Manager**

- 1. Without prejudice to the obligations stipulated in the Companies Law, the manager must exercise the necessary care and diligence in managing the family company. In particular, they must adhere to the following:-
  - a. Not to own or manage, directly or indirectly, whether for their own account or for the account of others, any economic activity that competes with the activity of the family company or its subsidiaries, unless the memorandum of association provides or a majority of the partners agree otherwise.
  - b. To submit an annual report to the partners on their management of the family company.
  - c. Not to borrow in their personal name with the assets of the family company as collateral.
  - d. Not to dispose of the assets of the family company except to the extent that it achieves the company's purposes and is permitted by the memorandum of association.
  - e. Any other obligations stipulated in the memorandum of association.

2. In managing the family company, the manager shall, in particular, be:-
  - a. Fair in dealing with all partners and not to prioritize the interest of one partner over another.
  - b. Independent in their opinion, free from personal whims and interests, and to place the interest of the family company above any other consideration.
3. Without prejudice to the penalties prescribed under the legislation in force in the State, the proven violation by the manager of any of the obligations or responsibilities stipulated in this Decree-Law or the Companies Law shall result in the possibility of requesting their removal or obliging them to pay compensation, if there is a cause for it, by a court judgment, unless the memorandum of association provides otherwise.

## **Article (17)**

### **Removal of the Manager**

The manager shall be removed in the cases specified in the appointment contract or in the memorandum of association according to the same conditions under which they were appointed. If they were appointed for an indefinite period by an explicit provision in the memorandum of association, they may not be removed except by the same majority required to amend the memorandum of association.

## **Article (18)**

### **Governance of Family Affairs**

1. The governance of family affairs in relation to its connection with the family company may be organized through the establishment and regulation of councils and committees, such as the Family Assembly, the Family Council, and the Family Office. Each, within its designated tasks, shall be responsible for managing family affairs and formalizing its relationship with the family company, including the

education and training of its members and their employment in the family company and its subsidiaries, and their entrepreneurial initiatives. It shall be concerned with separating the ownership and governance of the family's private assets from the ownership and governance of the family company, supervising the family's investments, organizing its charitable works and social contribution initiatives, and contributing to monitoring conflicts of interest and reconciling viewpoints in disputes that may arise among family members and between them and the partners.

2. The Ministry shall establish general guiding rules and regulations concerning the governance of the family company and the family, clarifying their powers and other matters.

## **Article (19)**

### **Settlement of Family Company Disputes**

1. The memorandum of association or the Charter may include a provision for the formation of a council of partners, family members, or third parties, whose purpose is to consider disputes that may arise between partners, between them and family members, and between them and the family company, and to attempt to reconcile them. The members of this council, its powers, and the mechanisms for managing its sessions and issuing its recommendations shall be specified.
2. If the memorandum of association or the Charter does not contain a specific provision for the formation of the council in accordance with clause (1) of this Article, or if the council does not succeed in its reconciliation efforts within a maximum period of (3) three months from the date the dispute was presented to it - unless this period is extended by agreement - or if the parties to the dispute agree not to refer their disputes to that council, unless the memorandum of association provides otherwise, all disputes between partners, between them and family members, and between them and the family company, which may arise from the memorandum of association, the management or ownership of the family company, or

the application of the provisions of this Decree-Law, shall be considered by the Committee.

3. The Committee shall decide on the grievance within a maximum period of (3) three months, which may be extended for a similar period upon a reasoned request from the concerned parties. This Committee may take any necessary preventive and urgent measures it deems appropriate to maintain the continuity of the family company and prevent the interruption of its business or any impact on its reputation or financial position throughout the period of considering the dispute.
4. The decisions of the Committee shall be appealable before the competent court in the State.
5. Notwithstanding the jurisdiction of the Committee stipulated in clause (2) of this Article, the parties to the dispute may agree on the following:-
  - a. Resorting to arbitration in accordance with the legislation in force in the State.
  - b. Resorting to the courts existing in the financial free zones in the State.
6. The Committee shall provide the Ministry with an annual report on the disputes brought before it and the outcome of these disputes during the year.

## **Article (20)**

### **Family Companies Dispute Resolution Committee**

A committee shall be established in each Emirate to be called the "Family Companies Dispute Resolution Committee" by a decision of the Minister of Justice or the head of the local judicial authority, as the case may be. The decision shall specify its formation and system of work in resolving family company disputes. It shall be chaired by a judge and assisted by two persons with expertise and specialization in legal, financial, and family business management fields. When considering the family company disputes brought before it, the Committee may seek the assistance of any expert or specialist it deems appropriate.

## **Article (21)**

### **Settlement of Disputes of Family Companies in Financial Free Zones**

The settlement of disputes relating to family companies registered in financial free zones shall be subject to the legislation applicable in these zones.

## **Article (22)**

### **Interpretation of the Memorandum of Association and the Charter**

1. In the absence of an explicit provision or in case of ambiguity in the memorandum of association or the Charter, the memorandum of association and the Charter shall be interpreted in a manner consistent with the common intention of the founders of the family company and its partners, and the objectives and purposes for which it was established, and in a way that helps its continuity and growth, its good management, and its smooth transition, protecting it from disputes and preserving it from one generation to another.
2. If the memorandum of association or the Charter contains a condition or provision that contravenes the provisions of this Decree-Law, the legislation in force in the State, or public order, the memorandum or charter shall remain valid, and the condition or provision shall be void.

## **Article (23)**

### **Termination of Family Company Status or its Removal from the Register**

1. A company shall lose its status as a family company if persons from outside the family acquire a majority of its shares that have voting rights under the provisions of this Decree-Law. The family company

shall then be removed from the Register at the request of any interested party or by a decision of the Competent Authority. The company shall continue in the form it existed in before acquiring the status of a family company, and its memorandum of association shall be amended to comply with that. Any contentious issues related to this transition process shall be referred to the Committee.

2. For the termination of the family company status in accordance with clause (1) of this Article, where part of its capital consists of Class (B) shares, the company must offer to purchase these shares at a price determined by the Committee, unless the seller and the company agree on another price. In case of disagreement, the company must regularize its status in accordance with the Companies Law.
3. The status of a family company shall not cease upon the death of a partner, their being placed under guardianship, their bankruptcy, or insolvency, unless otherwise agreed in the memorandum of association. In this case, the partners shall be granted a period of (3) three months from the date of death, the imposition of guardianship, or the declaration of bankruptcy or insolvency, to amend the company's status in accordance with this Decree-Law and the Companies Law. This period may be extended by a decision of the Competent Authority.
4. Partners owning no less than three-quarters of the capital of the family company may request the Ministry to remove the family company from the Register under the provisions of this Decree-Law.

## **Article (24)**

### **Validity of Dispositions**

1. For the purposes of applying the provisions of this Decree-Law, the regulation by family members of the ownership and transfer of shares or assets of the family company under the provisions of this Decree-Law or the laws applicable in the Free Zones, whether through sale, gift, or usufruct, shall not be considered a violation of the provisions of the aforementioned Personal Status Law, as long as it is completed during the life of the disposing partner.

2. An heir has the right to remain in the family company as a partner to the extent of the share they inherited or to dispose of their share, provided that in this disposition, they observe the provisions of Article (8) of this Decree-Law.
3. The procedures, transactions, and dispositions that took place before the registration of the family company in the Register under any previous legislation shall remain valid.

## **Article (25)**

### **Benefits and Incentives for Family Companies**

1. The Cabinet may, upon the proposal of the Minister and after coordination with the concerned authorities and competent authorities, issue such decisions as it deems appropriate regarding the benefits and incentives granted to family companies registered in the Register, and the controls and requirements related to these benefits and incentives.
2. The Competent Authority in the Emirate may grant any other benefits and incentives to family companies in accordance with the controls and requirements issued in this regard.

## **Article (26)**

### **Application of the Provisions of the Commercial Companies Law**

1. Subject to the legislation applicable in the Free Zones, family companies shall be subject to the provisions of the Companies Law and other applicable legislation in all matters for which no specific provision is made in this Decree-Law.
2. A family company is not considered a new form to be added to the forms of commercial companies listed in the aforementioned Companies Law.

## **Article (27)**

### **Repeals**

Any provision that violates or contradicts the provisions of this Decree-Law is hereby repealed.

## **Article (28)**

### **Publication and Entry into Force of the Decree-Law**

This Decree-Law shall be published in the Official Gazette and shall enter into force (3) three months after the day following the date of its publication.

**Mohamed bin Zayed Al Nahyan**

**President of the United Arab Emirates**

Issued by us at the Presidential Palace - Abu Dhabi:

On: 7 / Rabi' Al-Awwal / 1444 H

Corresponding to: 3 / October / 2022 G