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Federal Decree Law 20 of 2025: Making UAE Mainland Companies More Investor Ready

Federal Decree-Law No. (20) of 2025 introduces a series of targeted amendments to Federal Decree-Law No. (32) of 2021 concerning Commercial Companies (the “**Commercial Companies Law**”). These modifications refine several areas of corporate practice, address gaps identified since the Commercial Companies Law came into force and expand the tools available to businesses operating within the UAE. The changes affect structuring, governance, shareholder rights, free zone interaction, and cross-border corporate mobility with respect to companies located in the mainland of the UAE.

1. RE-DOMICILIATION AS A NEW CORPORATE MECHANISM

The amendments establish a structured legal mechanism that allows companies to transfer their corporate registration and licensing between different jurisdictions within the UAE. A company may relocate its registration from one emirate to another, between a mainland authority and a free zone, or between different free zones (including financial free zones), subject to the procedures and approvals required by the relevant licensing authorities. Throughout this migration process, the company retains its legal personality, corporate history, and contractual continuity. The detailed procedural requirements governing these transfers will be further clarified through Cabinet decisions and regulations issued by the competent authorities.



2. INTRODUCTION OF ADVANCED SHAREHOLDER ARRANGEMENTS IN LLCs

The amendments expressly permit mainland limited liability companies to hardwire into their Memorandum of Association (and, where applicable, their articles of association) a range of contractual arrangements that were previously more commonly confined to shareholders’



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agreements in common-law jurisdictions or DIFC/ADGM structures. In particular, limited liability companies (“LLCs”) may now include:

- Drag-along provisions, enabling majority shareholders to compel minority participation in a sale;
- Tag-along rights, ensuring minority shareholders may participate in a sale on equivalent terms; and,
- Succession mechanisms governing the treatment of a deceased shareholder’s interest, including priority rights for remaining shareholders and court valuation where parties cannot agree on price.

In practice, this development encourages existing mainland LLCs to revisit and amend their constitutional documents so that any drag-along and tag-along provisions currently sitting only in a shareholders’ agreement are mirrored in the Memorandum of Association (and, where applicable, their articles of association). Doing so enhances clarity and enforceability of exit and transfer arrangements and reduces reliance on standalone shareholders’ agreements, aligning mainland practice more closely with international norms.

3. TREATMENT OF FREE ZONE COMPANIES AND THEIR ACTIVITIES OUTSIDE THE ZONE

The amended law clarifies how free zone companies are treated under the Commercial Companies Law. Free zone entities remain governed by the regulations of their respective zones. However, once they conduct activities outside their authorized zone, their branches or representative offices must comply with the Commercial Companies Law and any mainland legislation applicable to those activities. The amendments also confirm that free zone companies are regarded as having UAE nationality, resolving previous uncertainty around their legal standing in transactions and regulatory dealings, while still preserving the independent regulatory authority of each free zone.





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4. RECOGNITION OF NON-PROFIT COMPANIES

For the first time, the law provides for the establishment of non-profit companies whose surplus funds must be applied to their stated purposes rather than distributed to shareholders. The statutory foundation for this type of corporate vehicle now exists, and further details on their formation, governance and supervision will be issued by the Cabinet, which will determine how such entities can in practice be used for social, cultural, charitable and community-focused activities.

From a practical perspective, the introduction of a dedicated non-profit company form gives corporates, families and philanthropists an onshore vehicle through which to pursue social, cultural, charitable or community focused initiatives, with a clear statutory requirement that surplus funds are reinvested in the stated purposes rather than distributed as profit. In-house counsel involved in corporate-social responsibility, foundation or impact driven projects should now factor this structure into entity choice discussions, while remaining alert to forthcoming Cabinet decisions that will set the detailed rules on formation, governance, supervision and eligible activities. In many cases, it may offer a more suitable and transparent alternative to *ad hoc* arrangements or for-profit companies used for quasi charitable purposes, particularly where stakeholders expect formal ring fencing of assets and mission.



5. INTRODUCTION OF SHARE CLASSES IN MAINLAND LLCs

One of the more significant changes to the capital structure of LLCs is the ability to issue multiple classes of shares, each carrying distinct rights, privileges, or restrictions. These may include, among others, variations in voting rights, dividend priority, redemption conditions, and liquidation entitlements.

In practical terms, the introduction of share classes allows mainland LLCs to implement “proper” venture capital and private equity style capital structures within a single UAE entity, rather than relying on joint stock companies or offshore/free zone holding vehicles. Founders can retain control through ordinary or high-vote shares while issuing preferred classes to investors with tailored economic and



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governance rights (such as dividend priority, liquidation preferences, redemption mechanics, or enhanced vetoes), and separate classes can be used for employee incentive pools or successive funding rounds with different risk-return profiles. Since each class and its rights must be recorded in the commercial register, capitalization tables become more transparent and easier to diligence, with core protections hardwired into the constitutional documents instead of dispersed across side agreements. For in-house counsel, venture capital investors and small and medium enterprises, this means greater flexibility in aligning economics, control and incentives in mainland LLC, and often a reduced need for more complex multi-entity structures created solely to achieve share-class functionality.

6. IN-KIND CAPITAL CONTRIBUTIONS AND VALUATION REQUIREMENTS

The amendments reinforce the permissibility of in-kind capital contributions while tightening the associated procedural requirements. Any in-kind contribution must be valued by one or more licensed valuers, failing which the contribution is deemed invalid. This ensures transparency in capital formation and protects both creditors and shareholders by ensuring that non-cash contributions reflect fair and documented value.

From a practical standpoint, the in-kind contribution rules mean that noncash assets (such as real estate, equipment or IP) can still be used to subscribe for or increase share capital, but only if their value is confirmed by one or more licensed valuers; otherwise, the contribution is treated as invalid and cannot be booked as capital. This introduces a mandatory valuation step into any transaction or restructuring that relies on asset contributions, which in house counsel will need to build into deal timetables, conditions precedent and corporate approvals. For founders and small and medium enterprises, it removes the ability to “agree” internal values for contributed assets to bolster stated capital without third party support, while investors and creditors gain greater comfort that registered capital more accurately reflects fair, documented value, reducing the scope for later disputes over overvaluation or undervaluation.





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7. ACCESS TO CAPITAL MARKETS FOR PRIVATE JOINT STOCK COMPANIES

While public offerings remain exclusive to public joint stock companies, the revised law now clearly authorizes a private joint stock company (“JSC”) to raise capital through private placements under conditions established by the Securities and Commodities Authority (“SCA”). This creates an intermediary fundraising route for private companies seeking institutional investment or preparing for eventual listing.

In practical terms, the express authorization for private joint stock companies to conduct private placements under Securities and Commodities Authority conditions creates a clearly defined, onshore route for raising institutional capital without immediately converting to a public joint stock company or undertaking an IPO. Private JSCs can now structure pre-IPO, growth or strategic rounds as SCA-regulated private placements, giving them a staged pathway to market while operating within a familiar securities-offering framework for disclosure, investor qualification and marketing. For in-house counsel and investors, this elevates such rounds from informal “private deals” to regulated offerings that must be aligned with SCA rules and company law requirements, but in return provides greater legal certainty, investor confidence and a smoother runway towards an eventual listing.

8. GOVERNANCE AND MANAGEMENT CONTINUITY

Several amendments address practical challenges related to management transitions:

- A manager’s resignation becomes effective after 30 days unless the company accepts or rejects it earlier.
- Companies must notify the competent authority of the expiration of a manager’s appointment and appoint a replacement within the prescribed period.
- Management bodies or boards whose terms have expired may continue for up to six months to ensure continuity.
- If no appointments are made within that period, the competent authority may appoint an interim manager or board for up to one year.

These rules aim to prevent gaps in management authority that could interfere with regulatory compliance or operational stability.





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CONCLUSION

Taken together, Federal Decree-Law No. (20) of 2025 equips UAE businesses and investors with a more flexible and internationally recognizable corporate toolkit. Mainland LLCs gain access to share classes and the ability to embed sophisticated shareholder protections in their constitutional documents, in-kind contributions are subject to clearer valuation standards, corporate migration between mainland and free zones is placed on a firmer footing, private JSCs have a defined route to raise institutional capital through private placements, and a statutory basis is introduced for non-profit companies alongside rules that improve management continuity. For in-house counsel, venture capital investors and SMEs, the practical next step is to map these changes against existing group structures, Memorandum of Association (and, where applicable, their articles of association), shareholder arrangements, funding plans and governance frameworks to identify where updates could unlock better investor alignment, simplify restructurings or reduce legal risk. We are closely tracking the implementing Cabinet decisions and related guidance and are happy to advise on how these reforms affect your current structures and on any amendments or new incorporations you may be considering.

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