



## The Enforceability of a Family Constitution in the UAE

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📍 Online via Zoom



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### The Enforceability of a Family Constitution in the UAE Webinar

#### Webinar Outcome Report

The Pearl Initiative (PI) is the Gulf region's leading business-led, non-profit organization established in 2010 by regional business leaders in cooperation with the United Nations Office for Partnerships. PI promotes the business case for a corporate culture of accountability and transparency across a wide variety of stakeholders including MNCs, Family businesses, SMEs, Tech entities, youth through different programmes and initiatives. PI recently launched its Governance in Tech programme with the aim of raising awareness amongst tech entities within the Gulf region of the benefits of strong and innovative corporate governance capabilities.

The UAE Government issued the Family Companies Law on the 3rd of October 2022, with the aim of developing a comprehensive and accessible legal framework to regulate the ownership and governance of family business in the UAE. This new law marks a key milestone and a monumental shift in the ability of family firms to navigate issues of ownership, governance and succession through legal frameworks that are designed to enhance their sustainability, longevity, competitiveness, and agility.

On the 22<sup>nd</sup> of February Pearl Initiative, in collaboration with EY held a virtual session on the new law that aimed to help family business leaders understand how the law supports the long-term sustainability and stability of family-owned businesses, as the family grows, and succession events inevitably occur.

The webinar was led by Fadi Hammadeh, General Counsel of Al Futtaim Group, and Yasmine Omari Director at EY Private. The Pearl Initiative extends their thanks and gratitude to the speakers for their generous contribution of their time and their expertise.

### **Key Learnings & Insights:**

#### Ownership

- The Family Business Law removes the cap of 50 partners for limited liability companies, allowing for more flexibility in ownership.
- The law also introduces the concept of classes of shares, allowing for patriarch/matriarch figures to plan for succession.

#### Governance

- The law provides clear provisions for governance, extending beyond what is provided under company law to regulate business governance.
- The law now allows family businesses to have a board of directors and committees with rules and terms of reference, further regulating the management of the business.
- The law allows for designated managers of the family business as the legal administrators of the succession of assets, ensuring an orderly transition of ownership between hands between generations.
- The law also introduces the concept of family governance, with a family constitution as a legally enforceable document.

#### Sharia Compliance

- The law seeks to appease concerns of violating Sharia succession law by stating that any transaction relating to the assets of a family business by way of sale, donation, or grant should not be considered a violation of Sharia policy.
- The law also allows for the creation of a wealth structure, allowing for distribution of ownership on the basis of meritocracy rather than following Sharia inheritance rules.

#### Dispute Resolution

- The law seeks to fast-track resolution of disputes with the establishment of a judicial committee aided by experts in family business affairs, allowing for disputes to be resolved through mediation or arbitration.
- Disputes can also be referred to the financial free zones.

### Other Key Learnings

- The law emphasizes the importance of distributing dividends.
- There will be incentives and benefits proposed by the cabinet to entice and drive family businesses to benefit from the new law.
- The law is opt-in, meaning it does not mandate private family businesses to adopt its provisions, but it provides a guidance point for the bare minimum.
- Family businesses can go far beyond the minimum requirements of the law to detail more things related to employment, education, dividends, the spiritual resolution, and the value system.

Overall, the new Family Business Law in the UAE provides a comprehensive framework for family businesses to operate professionally, regulate their governance, and ensure continuity through the generations.

To watch the full webinar [click here](#).