

THE UAE COMMERCIAL COMPANIES LAW AMENDMENTS 2025: BRINGING MAINLAND CORPORATE STRUCTURES CLOSER TO FREE ZONE CAPABILITIES

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Federal Decree-Law No. 20 of 2025 (“**the Amendment Law**”), effective 1 October 2025, introduces material reforms to Federal Decree-Law No. 32 of 2021 on Commercial Companies (“**the CCL**”).

These reforms apply to both mainland companies and free-zone entities, except for free-zones which corporate legislation expressly derogates from the CCL, such as DIFC, ADGM and DMCC.

The key changes envisaged by the Amendment Law include:

- 1) multiple share classes are introduced for LLCs,
- 2) drag-along and tag-along mechanisms are explicitly allowed,
- 3) a framework for re-domiciliation between emirates as well as between mainland and free zones is introduced,
- 4) statutory succession mechanisms are introduced for shares of LLCs and private joint stock companies.

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1. Introduction of Multiple Share Classes

Before

LLCs were limited to issuing a single class of shares with identical rights. Variations in voting, economic, or governance rights were not permitted.¹

After

LLCs are expressly authorised to issue multiple classes of shares, which may differ in value, voting rights, redemption rights, priority in the distribution of profits or liquidation, or other rights, privileges, or restrictions. The specific conditions and regulatory parameters for these classes will be established through forthcoming Cabinet decisions.²

Effect

Provides greater structuring flexibility in financing and governance for LLCs. For example, startups can now issue convertible preferred shares, while joint ventures can allocate profits or control in diverse ways.

Strengthens the UAE's attractiveness as a jurisdiction for growth financing and complex corporate structures.

Nevertheless, LLCs need to include share class provisions in their Memorandum of Association with caution, ensuring they align with rights such as pre-emption and transfer restrictions. The ability to fully implement multiple share classes will depend on future Cabinet decisions, but this change already brings UAE companies in line with global standards, benefiting venture capital and private equity investments.

2. Drag-along and tag-along

Before

Drag-along and tag-along arrangements were not directly mentioned in the legislation which resulted in practical difficulties with their enforcement by notaries and courts.³

After

CCL now specifically provides for a right of LLCs and private joint stock companies to embed drag-along and tag-along provisions directly in their constitutional documents. The amendment authorises both⁴:

- 1) clauses requiring shareholders to transfer their shares to a third party when specified conditions are met, and
- 2) clauses granting shareholders the right to join an existing sale on equivalent terms.

Effect

The inclusion of drag-along and tag-along provisions in the constitutional documents:

- 1) aligns mainland UAE laws with the common law jurisdictions' practices;
- 2) increases the likelihood of their enforceability;
- 3) improves investors' confidence in the drag-along and tag-along exits;
- 4) lowers transactions risks as the reliance on the ancillary agreements is decreased;

Nevertheless, shareholders' agreements will likely still remain necessary to maintain the confidentiality of the valuation frameworks and procedural details of transfers, as well as to cover dispute resolution mechanisms, penalty provisions, and transaction-specific terms such as put and call options.

Separately, statutory pre-emption rights under the CCL grant existing shareholders the right of first refusal before the shares can be offered to a third-party, thus creating possible conflicts with the new tag along and drag along provisions and poses risks for their enforceability.⁵ Consequently, for more flexible exit mechanisms, financial free zone holding companies like those in ADGM or DIFC may still be preferable, as pre-emption rights there are contractual, not statutory.

¹ Article 76 of the Old Law.

² Article 76(4) of the Amended Law.

³ Article 14 of the Old Law.

⁴ Article 14(4)(a) of the Amended Law.

⁵ Article 80 of the of the Amended Law.

3. Re-domiciliation

Before

Re-domiciliation of companies between mainland and free-zones and between emirates is not envisaged by the legislation and remains fully under discretion of the respective authorities, which usually makes it impossible in practice.

New provision

The new Article 15 bis establishes new provision that allows a company to re-domicile⁶:

- 1) between Emirates, or
- 2) from a free zone to the mainland, or vice versa (including financial free zones).

Re-domiciliation requires:

- 1) absence of prohibition of transfer by both registers;
- 2) absence of prohibitive annotations;
- 3) approval from the relevant authorities from which and to which the registration is being transferred;
- 4) approval of the securities regulator for Joint Stock Companies;
- 5) publication of the transfer decision;
- 6) compliance with all applicable onshore requirements when transferring from a free zone to the mainland.

Effect

The new re-domiciliation rules make it easier for companies to move between the mainland and different free zones in the UAE. This gives businesses more flexibility to choose the jurisdiction that best fits their needs.

For example, a company that started in one Emirate or free zone can now move to another place with better regulations or tax conditions. It does not need to close and re-open the company, which helps keep all contracts, licenses, and bank accounts in place.

This saves time and reduces costs.

4. Transfer of deceased shareholders' interests

Before

The CCL did not provide a statutory mechanism for addressing the transfer or valuation of a deceased shareholder's interest.⁷

After

LLCs and private joint stock companies can now include mechanisms governing the treatment of a deceased shareholder's shares, including rights of first refusal in favour of remaining shareholders or the company itself, supported by a court-mandated valuation process where the parties cannot reach agreement.⁸

Effect

A company can buy back a deceased shareholder's shares, despite UAE law generally restricting such buybacks for LLCs outside capital reduction.

However, it remains unclear whether the repurchased shares shall be cancelled, held in treasury, or redistributed, and whether this represents a limited exception or a potential future allowance for LLCs share buybacks in other contexts.

5. Other amendments

1) The Scope of the CCL Application:

The CCL scope now includes branches or representative offices of free zone companies operating outside their zones within the UAE, provided their laws permit such activities, and formally recognizes these companies as holding UAE nationality.

⁶ Article 15 bis of the Amended Law.

⁷ Article 14 of the Old Law.

⁸ Article 14(4)(b) of the Amended Law.

2) Introduction of Non-Profit Companies

Non-profit companies are now allowed, with profits required to be reinvested into the company's purpose rather than distributed to shareholders. Cabinet approval required for their creation. Additionally, exceptions to certain provisions of CCL may apply to them.

6. Conclusion

The Amendment Law introduces a set of modernising reforms that significantly expand the structural and transactional flexibility available to UAE companies, bringing them closer to the tools and mechanisms available at the free zone entities.

The most notable developments include:

- ability for LLCs to issue multiple classes of shares;
- statutory drag-along and tag-along for LLCs and private joint stock companies;
- re-domiciliation;

- statutory succession mechanisms for LLCs and private joint stock companies;
- broader CCL applicability and introduction of non-profit companies as a new statutory form;

The White Square team is ready to provide comprehensive support in the full spectrum of new opportunities created by the CCL amendments – whether structuring multiclass share arrangements, embedding drag-along and tag-along rights, managing company re-domiciliation or establishing non-profit entities.



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