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Twelfth Edition

Editor
Paul Dickson

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Chapter 18

UNITED ARAB EMIRATES

Nabil A Issa, James R Stull, Macky O'Sullivan, Sayf Shuqair and Benedict Grima[1]

I OVERVIEW OF RECENT ACTIVITY

The United Arab Emirates (UAE) is arguably the centre of the private equity and asset management industries in the Middle East. With a recent focus on economic and legal reforms, a low tax regime and a high quality of life, numerous international firms have set up their regional hubs in the UAE, and many talented and educated expatriate and local professionals have put down roots here.

Within the UAE, Dubai has become the epicentre of financial services transactions and innovation in the asset management sector in the Gulf Cooperation Council (GCC) and greater Middle East region, surpassing Beirut, Bahrain, Kuwait and Riyadh. Abu Dhabi, the country's capital, is known for its more conservative and patient investment strategy, and is home to some of the world's largest and most prominent sovereign wealth funds.

During the global financial crisis, Dubai, with a focus on financial transactions, was particularly hard hit, resulting in a near default on its debt payments and a subsequent bailout from Abu Dhabi. Many predicted that the financial crisis would be the end of Dubai and would result in a transformative change to Dubai's free spending and 'casino-like' culture. However, following certain significant restructurings and policy changes, Dubai entered a period of sustainable growth, with significant projects in the tourism and real estate sectors. These sectors were later hard hit by the covid-19 pandemic, and 2020 was a difficult year for the Emirate; however, with swift and strong leadership, Dubai was one of the first countries to emerge and reopen international travel, which was a boon to the economy.

Abu Dhabi weathered the global financial crisis by implementing a patient economic vision, buoyed by high oil prices. This approach led the government to invest in megaprojects and to focus on important sectors of the economy such as healthcare and education. With an economy predominantly based on oil and related hydrocarbon revenues, the slump in oil prices that followed the global financial crisis drastically reduced revenues for Abu Dhabi, which entered a stage of economic transition towards a more sustainable and diversified economy, highlighted in Abu Dhabi Vision 2030. The buoying of oil prices, however, owing to the Ukraine war, together with Abu Dhabi's increasingly diversified economy, led to it being the fasting-growing economy in the Middle East and North Africa region based on 2022 figures.

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To create additional income to cover the decrease in oil revenues, the government implemented VAT in January 2018. The International Monetary Fund hailed this decision, which it believes will strengthen the country's fiscal position. Additionally, as of 1 June 2023, there is a new federal corporate tax system in the UAE. Corporate tax has a three-tier system with rates ranging from zero to 9 per cent and applies to all businesses operating within the UAE with certain notable exemptions. Businesses registered in free zones that conduct certain qualified activities are exempt from the corporate tax provided that they also comply with all the regulatory requirements and do not conduct business with onshore UAE. Most funds and investment managers are domiciled in free zones in the UAE. Accordingly, it is not expected that the proposed taxes will have a substantial negative impact on the asset management industry in the UAE.

Like other global economies, the UAE was impacted by the covid-19 pandemic. Efforts were made by the UAE government to minimise the detrimental effect of the pandemic on the economy through the introduction of stimulus packages. The UAE Central Bank gave a US$27 billion support plan for banks, while Dubai gave US$409 million in direct stimulus for the energy, trade, retail and tourism sectors. On 28 March 2020, the Dubai Free Zones Council and several free zones across the UAE, such as the Dubai International Financial Centre (DIFC) and the Abu Dhabi Global Market (ADGM), announced financial and other support measures (including fee reductions, fee waivers and extended time frames for payment) to mitigate the adverse impact of the covid-19 pandemic on registered entities operating in these free zones. In September 2020, the UAE Cabinet of Ministers issued Law No. 26 of 2020, which amended certain provisions of the UAE Companies Law No. 2 of 2015. The amendments included changing the long-held restrictions on foreign ownership, which prevented foreign nationals and companies from owning more than 49 per cent of an onshore business operating in the UAE. The changes were part of a series of measures introduced to make the UAE a more investment-friendly destination (by making operating onshore a lot simpler and a lot less costly) and will hopefully help spur more investment in the country. The clarity over the ability of foreign investors to own 100 per cent of the capital of an onshore UAE entity may stimulate greater interest from foreign investors seeking to acquire UAE businesses.

To capitalise on the growth of the global and regional private credit market in recent years, the Dubai Financial Services Authority (DFSA) implemented a new regime for credit funds, which came into force on 1 June 2022. The new regime mainly had an impact on managers of credit funds domiciled in the DIFC, but there were also implications for non-DIFC credit funds. The new regulation resulted in increased regulation of DIFC credit funds and their managers (as compared with other DIFC funds and their managers) with higher fees and additional compliance obligations, recognising the inherent risks associated with investing in credit funds and including appropriate safeguards as a result. Separately, the Financial Services Regulatory Authority (FSRA) of the ADGM issued its Private Credit Fund Rules on 4 May 2023 (the Private Credit Fund Framework), enabling ADGM funds and their fund managers to originate and invest in private credit. Generally, the FSRA regime imposes fewer regulatory obligations and lower regulatory capital requirements than the DFSA regime and provides greater investment strategy flexibility to credit fund managers.

Environmental, social and governance (ESG) principles are ever more in the spotlight in the GCC, and the UAE is no exception. As a sign of the increased attention paid to ESG in the country, the UAE is due to host the 28th session of the United Nations Conference of the Parties (COP28) in November 2023. By making ESG reporting mandatory for listed companies, the UAE has been proactive in engaging companies to invest efforts in the sustainability sector as early as 2020. Private and state-owned companies in the UAE are welcome to adopt sustainability reporting but are not obliged to produce such reports. The ADGM has also identified sustainable finance as a strategic priority and was the first international financial centre globally to become carbon neutral. As an example, one of the oldest private banks in the UAE voluntarily joined the United Nations Global Compact initiative for responsible business practices and pledged US$30 billion of sustainable finance by 2030. Substantive commitments for future progress have also been made by the UAE government, which committed to achieve a Net Zero by 2050 strategic initiative and provided US$163 billion of funding to renewable energy to achieve that goal. ESG awareness at the private corporate level in the region has increased dramatically in recent years, and progress has been and promises to continue to be rapid in this area.

II GENERAL INTRODUCTION TO REGULATORY FRAMEWORK

Financial services such as investment management are generally provided in the UAE from three hubs, namely onshore in the UAE (i.e., outside a designated free zone), the DIFC and the ADGM, each of which has its own rules and regulations. The DIFC and the ADGM are economic free zones within the UAE that were created to encourage foreign investment by offering foreign businesses attractive concessions and a number of investment incentives, including a zero per cent tax rate and the ability to own a 100 per cent subsidiary (foreign ownership restrictions apply outside the free zones).

i Onshore UAE

From 2012 to 2014, primary responsibility for overseeing the licensing, regulation and marketing of investment management was transferred from the Central Bank to the Emirates Securities and Commodities Authority (SCA), with the SCA confirming the implementation in the UAE of a 'twin peaks' model of financial services regulation and supervision. Under this model, the Central Bank remains responsible for systemic stability, prudential oversight and monetary policy, while the SCA is responsible for conduct of business matters (including consumer protection and financial markets oversight). Any firm (whether based inside or outside the UAE, including free zones in the UAE) that intends to conduct investment management activities in the UAE outside a free zone must obtain a licence from the SCA prior to conducting such activities.

On 1 February 2023, a set of amendments to the existing investment fund regulations came into force in relation to the marketing of foreign funds in the UAE, confirming that foreign funds may be promoted in the UAE only to professional investors on a private placement basis (1) by a person licensed by the SCA to perform promotion activities in the mainland UAE and (2) with the approval of the SCA. The registration process for professional investor promotion requires, among other things, that the applicant provide proof of the regulation of the foreign fund in its home jurisdiction.

There is also a passporting regime in place as of March 2019, which was introduced to allow locally domiciled funds to be marketed across the UAE, the DIFC and the FSRA as further discussed in Section V.

Under SCA Resolution 01/Chairman of 2023, the SCA outlined a major overhaul of domestic UAE funds and introduced a number of new fund structures. The new structures include family funds, ESG funds, precious metal funds, protected cell funds, direct financing funds, real estate development funds and commodities investment funds. As well as introducing these new structures, the SCA also set out a clearer and more streamlined approach for sponsors to structure and launch new funds in the UAE.

After months of speculation, the UAE government confirmed in July 2020 that the Insurance Authority would fold into the UAE Central Bank as part of a wider simplification of the federal government's structure. In January 2021, the UAE Central Bank announced the commencement of operational procedures implementing the merger, which is part of a bigger initiative to transform the UAE Central Bank into one of the top 10 central banks globally.

ii DIFC

The DFSA is the independent regulator of all financial and ancillary services conducted through the DIFC, including investment management. The rules and regulations governing investment management in the DIFC are set out in the Collective Investment Law 2010, the Collective Investment Rules module of the DFSA Rulebook (the CIR) and the Regulatory Law. The Regulatory Law provides that financial services may be carried on in the DIFC only by a firm authorised and licensed by the DFSA. Managing a collective investment fund is defined under the General Module of the DFSA Rulebook as being legally accountable to the unitholders in a fund for the management of the property held for or within a fund under the fund's constitution, and establishing, managing or otherwise operating or winding up a collective investment fund. A DFSA fund management licence is required to manage a collective investment fund in the DIFC. Fund managers from reputable jurisdictions outside the DIFC (external fund managers) may establish and manage DIFC-based domestic funds without having to obtain a DFSA licence, provided that certain conditions are satisfied. For example, the domestic fund must be managed from a place of business that is in a jurisdiction either included in the DFSA's Recognised Jurisdictions List (as published on the DFSA website) or assessed by the DFSA as providing an adequate level of regulation.

iii ADGM

In October 2015, the ADGM financial services regulations (the Regulations) were enacted. Under the Regulations, firms carrying on financial services business such as investment management in the ADGM are subject to licensing by both the ADGM (in terms of the obligation to hold a commercial licence) and the ADGM Financial Services Regulatory Authority (in respect of the financial services licensing). The Regulations contain two key prohibitions, namely providing financial services without a licence or exemption and making an authorised financial promotion. The Regulations to some extent mimic the types of funds permitted in the DIFC and contemplate public funds, exempt funds and qualified investor funds. The ADGM has also sought to be a hub for real estate asset management in the region and has introduced a private real estate investment trust regime that has proven to be popular.

III COMMON ASSET MANAGEMENT STRUCTURES

The most common forms of asset management in the UAE are privately managed accounts and offshore structures. Privately managed accounts have long been popular in the region as managers have targeted capital from high net worth individuals, family offices and government-related investors in the UAE. For collective investment schemes, managers have generally looked to the Cayman Islands (and, to a lesser extent, other offshore jurisdictions) as the domicile of choice due to comprehensive corporate and funds laws and predictable legal regimes. Additionally, locally domiciled funds in the DIFC and ADGM have become increasingly utilised in the past couple of years.

Large local banks, such as First Abu Dhabi Bank and Emirates NBD Bank, have established public mutual funds onshore under the Central Bank and SCA regulations. However, to manage an onshore fund, a manager requires an SCA fund management licence, which the SCA began issuing only recently. Similar to other funds jurisdictions in the region, onshore funds are not legal entities but rather are contractual entities formed upon execution by the manager and the investors of the fund's terms.

The DIFC and DFSA have actively promoted the funds industry in the DIFC, with the DIFC publishing its 2024 growth strategy, which outlines fund management as its long-term strategic focus area. However, the DIFC funds industry has yet to flourish, and only approximately 103 funds have been established in this jurisdiction. The DIFC has the qualified investor fund (QIF) regime, which can be established in an expedited time frame and is subject to significantly less oversight than other UAE-based fund structures. A QIF structure is designed to be offered only through private placement to experienced investors, with a minimum investment of US$500,000 per investor. To manage a QIF or any other DIFC-domiciled fund, an entity must be licensed by the DFSA or licensed in a recognised foreign jurisdiction. As further encouragement to consider establishing in the DIFC, the DFSA has a fast-track licensing process with reduced fees and share capital for those entities that are seeking to establish in the DIFC for the purpose of launching a fund. On 21 March 2023, the DIFC announced the launch of its venture building programme, DIFC Launchpad. The initiative is aiming to develop a strong venture building model to promote the growth of innovative start-ups and scale-ups in the region. The DIFC Launchpad expects to support the launch of more than 200 new ventures, with over 100 of them being scale-ups that will collectively create over 8,000 new jobs and attract over US$544 million (2 billion dirhams) in venture capital. The DFSA has also implemented more flexible regulatory requirements for a venture capital fund under the new DIFC Venture Capital Funds Regime. The venture capital firm will not be required to maintain a set amount of capital but will be expected to maintain and have access to financial resources that are adequate to the size and complexity of its business. In addition, the DIFC venture capital fund manager regime (1) offers self-custody of fund property, (2) makes the appointment of an investment committee optional, (3) allows venture capital funds to invest more than 25 per cent in a single undertaking, (4) makes internal audit of the fund manager optional and (5) applies simpler capital requirements. The ADGM also has a favourable regulatory regime for venture capital fund managers wishing to establish venture capital funds in the jurisdiction, by applying lower regulatory capital requirements (US$0) than other types of ADGM funds (such as public funds, exempt funds and QIFs).

The DIFC has also adopted a prescribed company structure (formerly special purpose companies and intermediate special purpose vehicles were used) through which many managers effect their private equity, real estate and alternative investments. Managers have looked to the prescribed company structure owing to the short time frame to establish a prescribed company (i.e., one week versus potentially months to establish in other local jurisdictions), low incorporation fee (US$100) and annual renewal fee (US$1,000), as well as the DIFC's legal regime (which is based on English law) and the general recognition and treatment of DIFC companies as onshore companies for tax and regulatory purposes in the GCC. The ADGM has a comparable entity, the special purpose vehicle (SPV). The SPV has garnered substantial interest from managers and investors (and more recently start-ups and venture capital firms) since its introduction.

IV MAIN SOURCES OF INVESTMENT

The UAE is home to several prominent sovereign wealth funds, including the fourth largest in the world in terms of assets under management (the Abu Dhabi Investment Authority (ADIA), with an estimated US$853 billion under management as at August 2023). These sovereign wealth funds are funded through revenues of the government, which are primarily generated through the sale of oil and other related hydrocarbons, and income from their existing portfolios.

The UAE is also home to the DIFC, which is arguably the most popular and successful financial centre in the Middle East. In April 2023, it was announced that the size of the wealth and asset management sector in the DIFC is worth US$450 billion and is expected to continue to grow significantly over the coming years.

Local banks dominate the mutual funds industry in the UAE. These mutual funds generally target retail investors in the UAE and invest into listed equities, primarily in the UAE and the greater GCC region, but also into rated debt and other fixed income products. Many regional and international asset managers in the UAE (e.g., Franklin Templeton and NBK Capital) have established operations in the DIFC. These private equity managers tend to target institutional investors and family office investors.

The ADGM is growing as a fund domicile, and approximately 120 funds are currently registered in the free zone. Abu Dhabi government investors are increasingly investing in funds established in the ADGM, thereby playing an integral role in the growth and development of the asset management ecosystem in the ADGM. For example, following Abu Dhabi Investment Offices' investment in 2020 in Bedaya Fund I LP (an ADGM-domiciled venture capital fund operated by Shorooq Partners to help develop the start-up ecosystem in Abu Dhabi), in 2022, Abu Dhabi Developmental Holding Company's (ADQ) Disrupt AD invested in the Bedaya Fund II to back early-stage start-ups operating in fintech, software, platform verticals and digital assets in the Middle East, North Africa, Afghanistan and Pakistan region. ADQ also recently invested in Alpha Wave Incubation Fund LP, an ADGM-domiciled fund that will invest in Asian tech companies and set up regional headquarters for these companies in Abu Dhabi.

V KEY TRENDS

In a move widely understood to be aimed at establishing Dubai as a global hub for virtual assets, on 28 February 2022, the ruler of Dubai issued Law No. 4 of 2022 on the Regulation of Virtual Assets in the Emirate of Dubai (the Virtual Assets Law). The Virtual Assets Law applies to the provision of virtual asset-related services in Dubai (excluding the DIFC) and established the Dubai Virtual Assets Regulatory Authority (VARA, the world's first independent regulator for virtual assets). VARA is responsible for licensing and supervising virtual asset-related services, including virtual asset platform operation and management services and offering and trading in virtual tokens. On 7 February 2023, VARA released its much anticipated rulebooks for the regulation of virtual assets in Dubai (excluding the DIFC), with the goal of creating an inclusive, sector-friendly but ethical and responsible framework for the operation of virtual asset service providers and virtual asset activities in Dubai.

On 1 April 2020, the DFSA introduced a new listing regime for small and medium-sized enterprises (SMEs), allowing SMEs based in any jurisdiction to raise funds through capital markets by issuing shares, listing such shares on the DFSA's Official List of Securities and admitting them for trading on NASDAQ Dubai. The new listing regime is aimed at boosting the SME sector in the UAE by allowing SMEs to raise equity funding at a lower cost and within a less stringent regulatory framework. Not only is the regime beneficial to SMEs that want to raise growth capital but also it provides an additional viable exit option for potential private equity and venture capital investors that look to initially help grow, and eventually exit from, an SME. The new DFSA SME listing regime is aimed at enhancing the performance of the SME sector in the UAE by making it easier for SMEs to obtain equity financing in a prompt and cost-effective manner and is a step in the right direction for a growing economy.

In July 2019, the UAE Cabinet approved 122 qualifying activities across 13 sectors eligible for up to 100 per cent foreign ownership in the UAE. The list of sectors includes renewable energy, space, agriculture, the manufacturing industry, information and communications, transport and logistics, healthcare, education, construction and hospitality. To benefit from this scheme, applicants will need to make an application to the Foreign Direct Investment (FDI) Authority and satisfy certain obligations, including providing evidence of the deposit of the company's capital in a bank account, appointment of one or more licensed auditors for a renewable period of one year (up to six consecutive years), implementation of Emiratisation policies in the company and ongoing collaboration with the foreign direct investment (by notably maintaining regular accounts for the FDI project, notifying the date of commencement of work or production date, and providing information and statistics). The decision aims to support the growth environment and to reaffirm the UAE's position on the global arena as a hub for investment.

On 11 March 2019, the SCA, the FSRA and the DFSA announced that a new fund passporting regime will be implemented to facilitate the promotion of funds domiciled in each of onshore UAE, the ADGM and the DIFC. Under the new regime (which applies only to locally domiciled funds and not to the marketing of foreign funds), a fund manager of a DIFC-domiciled fund, for example, can register with the DFSA under the passporting regime and the DFSA will notify the other regulators (i.e., the FSRA or the SCA), which will then include the fund on their own respective register of funds, allowing the fund to be marketed to investors in the ADGM and onshore in the UAE. The implementation of the passporting regime is seen as an important step to encouraging the development of the mutual funds market so as to achieve the goal of having more diversified investment opportunities and products.

The country's sovereign wealth funds have long invested internationally into diversified portfolios. Because of less exposure in the region, which has seen a downturn owing to the slide in oil prices, and more investment in stronger international markets, the value of these funds' portfolios has not dramatically dwindled. However, it can be expected that the future budgets for UAE sovereign wealth funds will be significantly lower if the country is facing a budget deficit.

The primary asset classes for investment by local managers have been regional listed equities and real estate. With the local stock markets hit by the slump in oil revenues, managers have fallen back onto real estate more than ever. However, as opposed to the 2008 downturn, recently, managers have looked to other alternative classes such as debt, venture capital and private equity. While real estate remains the dominant asset class, the past two years have seen a rise of credit funds (across the sector, including mezzanine, distressed and real estate financing funds) as well as blind pool venture capital and private equity funds.

In an effort to attract new fund managers and provide a cost-effective option to establish and maintain fund management companies in the DIFC, the DIFC recently introduced significantly reduced fees. Fund managers looking to establish a presence in the DIFC will find that no application fee is now payable (previously US$8,000), and the annual commercial licence fee is US$2,000 (previously US$12,000). The DIFC has also introduced incentives for venture capital funds and managers, including flexible office space options and no regulatory capital requirement. Additionally, there has been a reduction in the regulatory capital requirement for other types of fund, from US$500,000 to US$70,000 for QIFs and exempt funds, and US$140,000 for public funds. It is expected that many managers will take advantage of the lower fees and the streamlined QIF regime (a more flexible structure that is as quick to establish as vehicles in more traditional offshore funds jurisdictions). Managers setting up investment funds in the DIFC have generally been focused on private equity and real estate assets.

There has been a surge in interest in the fintech sector in the UAE in the past couple of years, with both the DIFC and the ADGM recently launching fintech accelerators. The DIFC FinTech Hive was launched as a platform to help identify leading technology entrepreneurs and companies through a competitive process and then offer them the opportunity to develop, test and modify their innovations in collaboration with top executives from the DIFC and regional financial institutions. In the ADGM, the Regulatory Laboratory was launched, authorising fintech participants for a period of up to two years to develop and test their propositions. The first group of participants was announced in May 2017, with the second group commencing activities in July 2018. In June 2018, the ADGM launched its framework to regulate spot crypto-asset activities, including those undertaken by exchanges, custodians and other intermediaries in the ADGM. The framework also includes guidance from the ADGM Financial Services Regulatory Authority on the regulation of crypto-asset activities in the ADGM and an application form for interested applicants to operate a crypto-asset business within the ADGM. This is aimed at instilling proper governance, oversight and transparency over crypto-asset activities, positioning the ADGM as a destination of choice for crypto-asset players.

Special purpose acquisition companies (SPACs) also exist in the UAE with local companies seeking fast-track listings abroad. Abu Dhabi-based music streaming firm Anghami recently listed on the NASDAQ stock exchange in New York by merging with an SPAC, making Anghami the first Arab technology company to list on NASDAQ. This follows Abu Dhabi's Brooge Petroleum and Gas Investment Co, an oil storage and service operation business that listed in 2019 on NASDAQ after a merger with an SPAC to establish a global presence and access liquid markets. In June 2021, Dubai-based FIM Partners, a frontier and emerging markets asset manager backed by EFG Hermes, raised US$200 million in an initial public offering of an SPAC on NASDAQ, and there are continued announcements of further SPAC transactions in the UAE, with the *Financial Times* reporting in July 2021 that Abu Dhabi sovereign wealth fund Mubadala Investment Company (Mubadala) is close to launching two SPACs with a focus on technology and healthcare.

On 9 May 2021, the SCA enacted its new consolidated Rulebook, which came into force on 17 May 2021, and made a major change to the regulation of the promotion of 'financial products' onshore in the UAE. The Rulebook was updated meaningfully on 31 January 2023 with the effect that, subject to an exemption for reverse solicitation, foreign funds may be offered, marketed, distributed and advertised only via private offering in the UAE with the approval of the SCA, and that any such promotion may be carried out only by companies licensed by the SCA accordingly. The SCA recently issued guidance (but not legislation) providing that direct approaches to certain professional investors (such as the UAE federal government and local governments, governmental institutions and authorities) would be exempt from registration. On 1 June 2021, changes to the UAE Companies Law removing restrictions on foreign ownership of onshore companies in the UAE came into effect. The previous restrictions required 51 per cent of the share capital of all UAE onshore companies to be owned by UAE nationals. This requirement has been removed, and the amendment proposes that all business activities in the UAE are open for 100 per cent foreign ownership except for a negative list of activities that would be determined by the relevant UAE authority. Following recent actions from the relevant authorities in the UAE, it appears that the UAE has taken a slightly different approach for now. The new approach is to permit each Emirate in the UAE to determine the business activities that it would allow for 100 per cent foreign ownership within its territory. As at 1 June 2021, the Emirates of Dubai and Abu Dhabi published their respective permitted activities list. Each list contains over 1,000 activities that have no ownership restrictions. The approach in both Dubai and Abu Dhabi is for 100 per cent foreign ownership to be permitted only if a company's licensed activities are on their list. There does appear to be a broad alignment between the two lists, although the fact that each Emirate has the discretion to determine which business activities are permitted activities has resulted in certain key activities being open for foreign ownership only in some Emirates. For example, Abu Dhabi has included broader healthcare activities in its list of permitted activities, such as owning and operating general, ophthalmology, paediatric and gynaecology hospitals. These activities have not been specifically included on the permitted activities list for Dubai. Dubai has included more general healthcare-related activities that would require further discussion with the relevant authorities. Moreover, Abu Dhabi has included 'onshore and offshore oil and gas fields and facilities services' to its list of permitted activities, whereas Dubai has not. It is hoped that the clarity over the ability to own 100 per cent of the capital of an onshore entity will stimulate greater interest from foreign investors seeking to acquire UAE businesses and help boost the UAE economy.

NASDAQ Dubai's fixed income market maintained its buoyancy during 2022, strengthening Dubai's status as one of the leading listing venues globally for bonds and *sukuk*. The exchange welcomed 22 issuances of bonds with a total value of US$9 billion, and nine *sukuk* issuances with a total value of US$8.7 billion, pushing the total value of debt instruments listed on NASDAQ Dubai to US$111.8 billion by year end. Dubai continues to raise its profile internationally in digital assets thanks to developing an appealing regulatory framework that attracts leading global players in the new economy sector.

VI SECTORAL REGULATION

i Insurance

The UAE government confirmed in January 2021 that operational procedures had commenced to effect the merger of the Insurance Authority and the UAE Central Bank as part of a wider simplification of the federal government's structure. The merger is part of sweeping changes announced by the Ruler of Dubai, which will see the closure of 50 per cent of government service centres and their transformation into digital platforms within two years, and the mergers of around 50 per cent of federal authorities with other authorities or ministries. The merged entity will be chaired by the Minister of Economy.

ii Pensions

In general, pensions in the UAE are regulated by the General Pension and Social Security (GPSSA). The primary objectives of GPSSA have been to expand insurance coverage for UAE nationals and expatriate residents in the UAE, and the rapid disbursement of insurance, pension and other compensation to its beneficiaries. It is expected that GPSSA may play a larger role in the future, as the UAE has contemplated pension schemes for expatriates resident in the UAE, in addition to the existing pensions for UAE nationals.

The Abu Dhabi Retirement Pensions and Benefits Fund (ADRPBF) manages contributions, pensions and employee benefits for UAE nationals working for government, semi-government and private employers in Abu Dhabi. The ADRPBF is an active investor in private equity funds and has a large, diversified portfolio of investments.

The UAE Ministry of Labour requires employers to pay employees 'end-of-service gratuity' pay upon termination of their employment. This payment is calculated based on the term of an employee's employment with a company, provided that the maximum gratuity payable is two years' wages. As an alternative, employers can establish pension schemes that employees can opt into in lieu of the end-of-service gratuity system. However, such pension schemes are not common.

iii Real property

Historically, real estate has been the asset of choice for investors in the UAE, despite the precipitous drop in value during the global financial crisis and a general volatility in the housing market above other global developed economies. Dubai's property sector surged in 2020 because it reopened during the pandemic before most major cities, and because rich buyers snapped up luxury units, boosting a sector that had been slow since the 2014 to 2015 oil price crash. Property prices climbed 11 per cent in 2022 in Dubai after a 21 per cent increase in 2021. During 2022, the Ukraine war increased purchasing from Russian buyers, making Russians the top non-resident purchasers in 2022.

In the DIFC, the CIR sets out rules and regulations specific to real estate funds, including restrictions on the types of assets a real estate fund can invest into (e.g., a real estate fund may in certain circumstances invest only up to a maximum of 40 per cent of cash in government and public securities), the type of legal structure that can be used to establish a property fund in the DIFC and requirements in relation to the establishment of an advisory committee for real estate funds.

In late 2018, the DFSA introduced open-ended real estate funds. The first open-ended real estate fund was established in the DIFC in March 2020. As the Dubai real estate market continues to break pre-pandemic transaction records, a new real estate law was introduced to further support the growth of property investment funds in Dubai. With the issuance of Decree No. 22 of 2022 (the Property Investment Funds Law), a new register (the Register of Property Investment Funds) was established at the Dubai Land Department, which avails registered funds of certain rights to facilitate their investments in the Emirate. The key development is that the registration mechanism will enable registered UAE funds to purchase and own real estate assets in those areas in Dubai that have restrictions on foreign ownership (with such areas to be determined by a special committee that will be established pursuant to the Property Investment Funds Law). The fund will not be permitted to sell those real estate assets in the areas restricted for foreign ownership without the prior approval of the special committee. There are also reduced transfer fees of 2 per cent (calculated based on market value) for registered funds, whereas the typical equivalent Dubai Land Department fee is 4 per cent.

iv Hedge funds

Hedge funds in the DIFC are regulated by the CIR, similar to other investment funds. The DFSA has implemented the Hedge Fund Code of Practice, which sets out the principal risks associated with hedge funds and similar structures and sets out best practice standards.

Hedge fund managers are permitted a degree of flexibility to adapt the standards to suit their particular businesses in light of market conditions and emerging issues. These standards, inter alia, address back office systems, valuation procedures, and the skills and resources of managers. It is reported that the DIFC is in discussions with over 50 hedge funds regarding the establishment of asset management and fund operations in the DIFC. Certain hedge funds have already expanded operations into Dubai, including BlueCrest and US-based Verition Fund Management. On 11 July 2023, the DIFC announced that it is the first financial centre in the region to enter into an agreement with the Alternative Investment Management Association (AIMA), the alternative investment industry's pre-eminent voice globally, representing over 2,100 corporate members with over US$2.5 trillion hedge fund and private credit assets. The agreement evidences and extends AIMA's long-standing commitment to the region and the DIFC's growing role as an international hub for alternative investments and hedge funds.

v Private equity

As at November 2022, private equity investors have invested over US$14 billion into a record 64 Middle East-based buyouts in a steady rebound since the pandemic-induced trough in deal activity during 2020. Fundraising worldwide has slowed considerably as the continued availability of cheap debt ceased after a highly active 2021. In contrast to many other developed markets, the Middle East is currently defying the industry-wide slowdown in dealmaking. Showing the globally renewed interest in the UAE, Canadian pension fund

CPDQ invested US$5 billion in Dubai-based logistics firm DP World in 2022, marking the second largest ever buyout in the Middle East (some three years after Aramco's listing). Another significant deal in the Middle East during 2022 was US tech-focused private equity firm Joffre Capital's US$2.2 billion buyout of Israeli gaming firm Playtika. Further, Emaar Properties PJSC, a portfolio company of the sovereign wealth fund Investment Corporation of Dubai, announced during the summer of 2022 that it had acquired Dubai Creek Harbour (a large residential and retail development) for US$2 billion.

In the DIFC, the CIR sets out rules specific to private equity funds. For example, a fund manager of a private equity fund must ensure that, unless the purpose of the private equity fund is to invest in a single venture or undertaking, it does not invest more than 25 per cent of the fund in one such venture or undertaking. Additionally, the CIR sets out guidelines that must be followed by the fund manager of a private equity fund prior to entering into related-party transactions (e.g., prior investor approval by special resolution).

vi Other sectors

Sovereign wealth funds

The UAE is home to some of the most prominent sovereign wealth funds: the ADIA, the Abu Dhabi Investment Council (ADIC), Mubadala, the Emirates Investment Authority (EIA), ADQ and the Investment Corporation of Dubai (ICD). ADIA, ADIC and Mubadala are all resident in Abu Dhabi and focus on investments for the benefit primarily of Abu Dhabi but also for the UAE as a whole. EIA is also based in Abu Dhabi but is a sovereign wealth fund established for the benefit of the seven Emirates of the UAE. ICD was established in 2006 to hold the assets of the government of Dubai.

ADIA currently has an estimated US$853 billion in assets under management, which it commits to private equity, venture capital, real estate, debt and other alternatives. ADIA invests the surplus oil revenues generated in Abu Dhabi and focuses on international investments (with a focus on North America, Europe and emerging markets). ADIA tends to be a passive investor relying on the managers of the funds and companies in which it invests.

Formed in 2007, ADIC is a spin-off of ADIA and, similar to ADIA, it invests surplus oil revenues. Whereas ADIA primarily makes international investments, ADIC maintains a stronger focus on UAE and Middle East investments. ADIC is agnostic as to asset class and will make both direct and fund investments. It is estimated that ADIC has approximately US$123 billion in assets under management. ADIC is currently being consolidated with Mubadala.

Mubadala is a sovereign wealth fund established with the purpose of diversifying the Abu Dhabi economy and providing social benefits to the UAE. It has focused on infrastructure, transportation and energy, including renewable energy. One of its most prominent investments is Masdar City, located outside Abu Dhabi, which is designed to be a hub for clean-tech energy companies and is committed to zero carbon. It is estimated that Mubadala has US$276 billion in assets under management.

EIA was established in 2007 by royal decree to represent the seven Emirates of the UAE. EIA invests in many companies that operate across the UAE, such as telecommunications companies and local banks. EIA currently has an estimated US$87 billion in assets under management.ICD is a sovereign wealth fund owned by the government of Dubai. ICD's purpose is generally to supervise and manage the assets of the government while adding value to the portfolio. ICD owns assets in the energy, transportation, banking, industrial, real estate and other sectors, including stakes in some of Dubai's most prominent companies, such as Emaar Properties, Emirates NBD Bank and Emirates Airlines. It is estimated that ICD has approximately US$320 billion in assets under management.

Family offices

Family groups are significant players in the asset management industry in the UAE, on both the manager and the investor side, and are widely expected to be a very active investor group over the next year. While these family offices invest globally, many have a vested interest in investing in their home economies and the regional markets. There has been a trend of the larger UAE family offices moving away from blind pool funds and focusing more on trying to take direct stakes in their investments. A further recent trend is increased allocation by family offices in the region to venture capital, historically a sector that was avoided by such investors.

VII TAX LAW

Historically, the UAE has been a zero tax jurisdiction. However, in October 2016, the UAE federal law establishing the UAE Federal Tax Authority (FTA) was issued. The FTA is tasked with overseeing taxation in the UAE and, in particular, the implementation of the newly introduced VAT, which was implemented in January 2018. The FTA is responsible for formulating UAE federal tax rules and regulations, including VAT, and oversees the UAE's application of international tax obligations pursuant to tax treaties, tax information exchange treaties and global tax information exchange programmes. In addition, the FTA is responsible for implementing all aspects of tax law, including assessments, evaluations of returns, audits and the resolution of disputes. On 1 June 2023, corporate tax began to apply on the net profits of businesses. The businesses the corporate tax applies to include, inter alia, all businesses and individuals conducting business activities under a commercial licence in the UAE; banking operations; and businesses engaged in real estate management, construction, development, agency and brokerage activities.

Notwithstanding the introduction of VAT and corporate tax, the following taxes are not currently applicable in the UAE: withholding tax, personal income tax and capital gains tax.

Entities established in the DIFC and the ADGM and their employees are subject to a zero rate of tax (income tax, corporate tax, withholding and capital gains, etc.). It is hoped that the tax regulations will have a negligible effect on the asset management industry in the UAE.

VIII OUTLOOK

Throughout the financial downturn and the subsequent slide in oil prices, the UAE showed its resilience. It proved that its economy operates outside the oil and energy sectors, and that it has the infrastructure to maintain and grow its asset management industry. Regional and international managers see the UAE as the logical regional centre for the asset management industry, with Dubai serving as the hub. The DIFC is seeking to capitalise on this success by introducing simpler funds regulations to encourage more growth of the industry.

In Abu Dhabi, the authorities have sought to emulate this success and make the ADGM a competitor to the DIFC as a regional funds jurisdiction. Support by government investors in Abu Dhabi has helped support the ADGM and has been an encouragement for local and international managers to set up shop there. Given the current stronger price and demand for oil, the UAE and wider GCC region have a promising economic outlook in the medium term, especially when compared with Western economies that are battered by the war in Ukraine and high inflation.