# **Unlocking the Emirates:**
A fund manager's guide to the UAE

# Contents

## Executive summary

**The United Arab Emirates ("UAE") is emerging as a world-leading destination for asset managers, hedge funds, and private equity firms looking to expand their presence. It offers a range of fund management options and significant access to capital.**

The growing wealth in the Middle East, Africa, and South Asia ("MEASA") region is sparking increased demand for tailored fund management services. With an estimated AED 3.67 trillion in assets expected to be passed on to the next generation in the Middle East over the next decade, the UAE's strategic location, sophisticated financial infrastructure, and business-friendly climate make it an appealing base for global funds seeking regional exposure. (DIFC n.d.)

The UAE's asset management industry continues to show remarkable growth. In 2023, the Dubai International Financial Centre ("DIFC") saw a 26% increase in active companies, reaching 5,523, with 1,451 new registrations marking a 34% year-on-year increase. Notably, the number of FinTech and innovation firms rose by 31% to 902. Nearly two-thirds of hedge funds based in the DIFC hail from the US and the UK, with two of the globe's top ten largest hedge funds included among them. (DIFC n.d.). Meanwhile, Abu Dhabi Global Market achieved a record 211% increase in assets under management in 2023, affirming its role as a dynamic financial hub.

This guide is intended for fund managers interested in establishing a presence in the UAE for investment management or capital raising purposes.

# Introduction: About the UAE

A constitutional federation, the UAE comprises seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Umm Al Quwain, and Ras Al Khaimah. These emirates gained independence following the British departure from the Gulf region in 1971.

Located on the Arabian Peninsula and bordered by the Arabian Gulf and the Gulf of Oman, the UAE serves as a strategic link between East and West. This positioning makes it a focal point for international trade and investment, offering a gateway to high-growth emerging markets in the Middle East and North Africa, as well as increasingly in South Asia, Central Asia, and Sub-Saharan Africa. The UAE offers excellent connectivity, with one-third of the world's population within a four-hour flight (Air Cargo Week 2024).

The government is actively transitioning toward a knowledge-based economy, with a focus on innovation in technology and sustainable energy. The UAE's stable political and economic environment, advanced infrastructure, mature financial markets, and continuous strategic reforms position it as an attractive location for international businesses and foreign direct investments. Business-friendly policies, such as freedom for capital repatriation, streamlined workforce entry, and incentives for foreign investors, further enhance its appeal.

Arabic culture shapes daily life and business practices. Known for its welcoming environment, the UAE is home to over 200 nationalities (UAE Ministry of Foreign Affairs n.d.). While Arabic is the official language, English dominates in business and daily interactions, alongside widely spoken Hindi, Urdu, and Persian.

## Policies to attract global business and investment

The UAE has implemented several fiscal, regulatory, and social regimes to enhance its commercial and investment appeal. These include:

### Ease of doing business

The World Bank named the UAE as the top-performing country in the Gulf region for ease of doing business, ranking it 16th among 190 countries globally (World Bank 2019).

### Foreign exchange controls

There are currently no foreign exchange controls that may impact the repatriation of capital or profits.

### Personal income tax

There is no personal income tax levied at the federal or emirate level.

### Currency

The Arab Emirati Dirham ("AED") is pegged to the US dollar ("USD") at a constant exchange rate of 1 USD = AED 3.6725 with the aim of ensuring currency stability and facilitating international trade (UAE Government Portal n.d.).

### Federal budget

The UAE's federal budget for the period 2022-2026 totals AED 290 billion, making it the most substantial expenditure plan in the nation's history. This budget focuses on social development, improved government services, execution of federal projects, and economic growth (UAE Ministry of Foreign Affairs n.d.).

### Foreign ownership laws

The government revised the federal Commercial Companies Law to allow foreign investors to fully own certain businesses. Previously capped at 49%, foreign investors are now permitted to fully own up to 100% of shares (UAE Government Portal n.d.).

### Technological innovation

Ongoing investment in technological infrastructure and innovation makes the UAE an attractive hub for digital assets, fintech, and blockchain enterprises.

### Personal freedoms and social policies

Reforms to personal laws have improved rights and freedoms for foreign nationals, including amendments to laws governing alcohol consumption and cohabitation of unmarried couples.

### Work permits

In May 2023, the Federal National Council, which serves as the parliamentary body of the UAE, has approved a three-year work permit.

## Ten-year agenda for economic growth

These developments contribute to the ten-year economic growth agenda unveiled by His Excellency Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Ruler of Dubai, in November 2023. This agenda introduces ten key principles for the UAE's economic advancement, which broadly focus on:

1. Strengthening the UAE's position as a globally open free-market economy
2. Providing an environment that attracts and nurtures top talent
3. Investing in the digital economy
4. Integrating young Emirati talent in the country's economic model
5. Managing a sustainable and balanced economy
6. Offering a strong and stable financial system
7. Providing a robust and fair legislative environment
8. Upholding the principles of transparency and the rule of law
9. Developing and operating an advanced banking system
10. Delivering the world's finest transport and logistics infrastructure
    (UAE Government Portal n.d.)

## The financial free zones

The UAE has established a series of free zones to support its economic diversification and to attract foreign investment. These zones offer a range of benefits designed to simplify the process of setting up and operating a business, catering to the needs of a global business audience. A key example of their impact is in Dubai, where free zones have attracted 56% of the world's Fortune 500 companies and more than 200,000 registered companies (Visit Dubai n.d.).

Within the UAE, the Dubai International Financial Centre ("DIFC") and Abu Dhabi Global Market ("ADGM") are two principal free zones dedicated to financial services, offering a regulatory environment that supports the growth of finance and business activities.

### The UAE has been removed from the FATF global 'grey list' and EU financial 'blacklist'

Two years after being placed on the Financial Action Task Force's ("FATF") global 'grey list' for jurisdictions requiring increased monitoring, the UAE has been officially removed from the list. This delisting, achieved in March 2024, reinstates the UAE's credibility on the global stage and marks a significant effort by the UAE to bolster its financial oversight and anti-money laundering ("AML") and counter-terrorist financing ("CFT") practices.

It's crucial to note that removal from the 'grey list' does not imply a relaxation in the UAE's vigilance against financial crimes. The reforms and measures adopted during the monitoring period are designed to be enduring. The FATF has announced that it 'welcomes the UAE's significant progress in improving its AML/CFT regime' and has stated that 'the UAE is therefore no longer subject to the FATF's increased monitoring process' (Financial Action Task Force 2024).

Furthermore, in February 2024, the Council of the European Union proposed removing the UAE from what is commonly known as the EU's 'blacklist'. This list identifies third-country jurisdictions considered high-risk to the EU's financial system due to deficiencies in AML/CFT measures. However, the European Parliament blocked this move, in recognition that the country has much more work to do.

## The Dubai International Financial Centre ("DIFC")

The DIFC is a purpose-built financial free zone located in Dubai. Established to drive economic growth and development in the UAE and the wider region, the DIFC offers a secure and efficient platform for business and financial institutions. It is known for its robust legal framework, which incorporates English common law to create a familiar and reliable environment for international finance.

The DIFC is home to hundreds of financial institutions, including top investment banks, asset management firms and insurance companies. The wealth and asset management industry in the DIFC comprises more than 330 companies and is valued at over USD 450bn, with assets under management amounting to over USD 165bn (DIFC n.d.).

## Abu Dhabi Global Market ("ADGM")

Situated on Al Maryah Island in Abu Dhabi, ADGM is a broad-based international financial cluster for local, regional, and international institutions. The Market's three independent authorities – the Registration Authority, the Financial Services Regulatory Authority ("FSRA"), and ADGM Courts – ensure a well-regulated and business-friendly environment.

ADGM has established an attractive regulatory, legal and tax environment for fund managers. Its fund framework delivers competitive costs and swift market entry, alongside minimal capital requirements on a global scale. Additionally, there are no salary limitations imposed on fund managers. Its comprehensive facilities and services support a variety of business needs, from office space to networking opportunities.

Fund managers have the capability to set up a variety of fund types within ADGM, including mutual funds, hedge funds, private equity funds, property funds, Real Estate Investment Trusts ("REITS"), listed funds, Shariah-compliant funds, and venture capital funds. These funds are regulated and protected to varying degrees based on their target audience. For instance, retail funds available through public offerings face one set of regulations, while funds offered exclusively to professional and selected clients through private placements adhere to a different set of regulations appropriate to the fund type.

## Compliance and legal considerations

### Legal system

The UAE operates as a federation governed by a constitution that outlines how legislative powers are shared between the federal government, with Abu Dhabi as the federal capital, and its seven individual emirates. While federal laws take precedence over emirate-level laws, the emirates have the authority to pass their own laws in domains not exclusively designated for federal regulation. They are also empowered to legislate in areas where the federal government has not yet enacted laws. The legal framework of the UAE is based on two main influences: civil law principles, predominantly drawn from Egyptian law, and Islamic Shariah law (Baker McKenzie 2023).

### Judicial system

There is a combination of federal and emirate-level courts with parallel local jurisdictions, depending on which system the emirate has opted for. Each emirate is entitled to either establish its own judiciary or merge with the federal court system. The UAE Federal Supreme Court, which has its seat in Abu Dhabi, is the highest court in the federal judicial system. The DIFC and ADGM have their own courts, which are based on the English judicial system (Baker McKenzie 2023).

### Jurisdictions

In the UAE, companies can choose to operate in the mainland for general market access, in industry-specific free zones for targeted benefits, or through offshore entities. Each jurisdiction offers distinct regulatory and operational advantages. For instance, there are more than 40 free zones that allow 100% foreign ownership of businesses. Mainland business regulations also permit 100% foreign ownership in specific economic activities and sectors (UAE Government Portal n.d.).

## Key regulatory authorities

### The SCA

The Emirates Securities and Commodities Authority ("SCA") is the federal regulatory authority responsible for overseeing the securities and investment sector in the onshore jurisdiction of the UAE. The SCA's mandate includes monitoring and regulating the UAE's financial markets, including the Dubai Financial Market ("DFM"), the Abu Dhabi Securities Exchange ("ADX"), and the Dubai Gold & Commodities Exchange ("DGCX"). All securities-related activity falls within the SCA's regulatory scope, except for those carried out in the DIFC and ADGM.

In January 2023, the SCA restructured its investment funds system by introducing several significant new regulations. These changes, part of the UAE's broader "We the UAE 2031" vision, aim to "reinvigorate" the UAE's asset management sector as well as safeguard UAE investors by reducing regulatory discrepancies. They also aim to align mainland UAE's investment management regulations and foreign fund promotion rules more closely with those of other Gulf Cooperation Council ("GCC") member states.

According to the SCA, the fund passporting arrangement involving the SCA and the regulatory bodies of both DIFC and ADGM remains unchanged by the introduction of these new regulations. Fund managers in DIFC and ADGM may market funds based in these free zones to retail and professional investors across mainland UAE, provided they adhere to the specific rules of the arrangement (SCA 2023).

### The DFSA

The DIFC has its own robust regulatory and legal framework that provides a safe and secure platform for conducting business. The Dubai Financial Services Authority ("DFSA") is the independent regulator responsible for overseeing and regulating of financial services within or from the DIFC. The Authority's stated approach is: 'to be a risk-based regulator and to avoid unnecessary regulatory burden' (DFSA n.d.).

The DFSA's regulatory scope covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange, and an international commodities derivatives exchange. It also oversees the enforcement of AML/CFT laws within the DIFC.

Recent initiatives to strengthen ties between the DFSA and local and global regulatory entities include:

- Signing a Memorandum of Understanding with the UAE's Financial Intelligence Unit to enhance collaboration on AML/CFT/CPF initiatives.
- Partnering with the Hong Kong Monetary Authority to explore new policy and regulatory responses to support and enable climate finance in the Middle East and Asia.
- Introducing a regulatory fee waiver for issuers aiming to list sustainability-related debt securities in the DIFC throughout 2024, with the goal of accelerating the development of sustainable capital markets (DFSA n.d.).

## GCC fund passporting regime

Discussions are ongoing to establish unified foreign fund passporting rules across the Gulf Cooperation Council ("GCC"), aimed at streamlining investment activities across the region. The goal of this initiative would be to facilitate the cross-border distribution of funds without adhering to each host country's unique regulatory demands. The exact timeline remains uncertain, as it requires the drafting of a new regulatory framework that will define uniform standards and fund types.

As mentioned, the SCA updated its rules on the distribution of foreign funds in the UAE in January 2023, introducing several significant new regulations that bring mainland UAE's investment management regulations and foreign fund promotion rules closer in line with those of several other GCC member states. This could be viewed as a step towards unifying GCC-wide rules.

### The FSRA

The ADGM has established a progressive regulatory environment designed to support the growth and development of businesses within a global financial hub. It operates under an independent, English common law framework, in line with international best practices. Corporate disputes are either litigated or arbitrated in English within the ADGM court system.

The Financial Services Regulatory Authority ("FSRA") is the key regulatory body overseeing financial services activities within ADGM, ensuring adherence to international best practices and standards. The FSRA oversees a wide range of financial services including banking, asset management, insurance, and capital market activities, while also upholding high AML/CFT standards.

For investment funds, the Authority has introduced sector-specific regulatory frameworks. These include a regime for Private Real Estate Investment Trusts ("REITs"), allowing managers to privately offer REITs without going public, and a Venture Capital Fund Manager ("VCFM") scheme that reduces regulatory burdens for eligible VCFMs, including eliminating the need for regulatory capital.

The FSRA allows both local and external fund managers to establish funds in ADGM using various structures, including Shariah-compliant options. ADGM-based managers can also operate funds located outside the free zone. Furthermore, certain firms are permitted to market and distribute ADGM and non-ADGM funds within and from this jurisdiction (ADGM 2020).

### VARA

The UAE is emerging as a key player in shaping a robust regulatory framework for the virtual assets industry. Founded in February 2022, the UAE's Virtual Assets Regulatory Authority ("VARA") is the world's first independent regulator for virtual assets, tasked with regulating and supervising the provision, use, and exchange of virtual assets in and from the emirate of Dubai. This framework aims to encourage innovation while providing guardrails that ensure consumer safety, market integrity, and cross-border financial security.

Companies looking to conduct virtual asset activities in Dubai, outside the DIFC, must obtain a Virtual Asset Service Provider ("VASP") License. Applications are processed through Dubai's Department of Economy and Tourism ("DET") for onshore businesses and the respective free zone authority for those in free zones, excluding the DIFC. This compulsory license, vital for offering virtual asset services in Dubai, is valid for one year and requires annual renewal. The VARA licensing framework encompasses various services including advisory, broker-dealer, custody, exchange, lending and borrowing, management and investment, and transfer and settlement (VARA 2024).

In contrast, the DIFC has enacted new digital assets laws, which entered into force on 8 March 2024. The DIFC New Digital Asset Law (Amendment Law, No. 3 of 2024) amends other existing regulations to align them with the new digital assets and revised security regimes.

## Tax implications and incentives

The Middle East is experiencing an increasing wave of tax reforms, with the UAE introducing several new regimes. These include:

- Excise tax in October 2017
- Value-added tax ("VAT") in January 2018
- Economic Substance Regulations in April 2019
- Country-by-Country ("CbC") Reporting in April 2019
- Federal corporate tax ("CT") in 2022, impacting taxpayers for financial years commencing on or after June 1 2023

### Corporate tax incentives

Companies and, in some cases, branches that are registered in a free zone, are considered taxable persons under the UAE CT Law. They are therefore obliged to meet normal compliance obligations, including transfer pricing requirements.

However, provided a free zone entity meets certain conditions, it should be eligible for a 0% UAE CT rate on its qualifying income. Any income that does not qualify will be liable for CT at a rate of 9%.

To be eligible for the 0% UAE CT rate, an entity must meet the following conditions:

- Be a legal entity incorporated, set up or registered in a free zone, including branches
- Maintain adequate substance in the UAE (in a free zone)
- Earn qualifying income
- Not opt for the standard UAE CT regime voluntarily
- Adhere to all transfer pricing rules and requirements
- Ensure its non-qualifying income stays within minimal threshold limits
- Produce audited financial statements

### VAT considerations

Since January 2018, the UAE has implemented a standard VAT rate of 5%. Anyone conducting a business in the UAE with taxable and other qualifying supplies exceeding AED 375,000 over 12 months must register for VAT within 30 business days after surpassing this threshold.

The supply of goods within certain free zones (those that qualify as designated zones for VAT) are not subject to VAT, provided specific criteria are met. However, services provided within these designated zones are still taxable under UAE VAT regulations.

A VAT exemption applies to:

- Certain financial services
- The subsequent supply of residential real estate
- Transactions in bare land
- Domestic passenger transport

(PwC, 2024)

## No personal income tax

The UAE does not impose personal income taxes. The only exception involves government employees, who must contribute to social insurance.

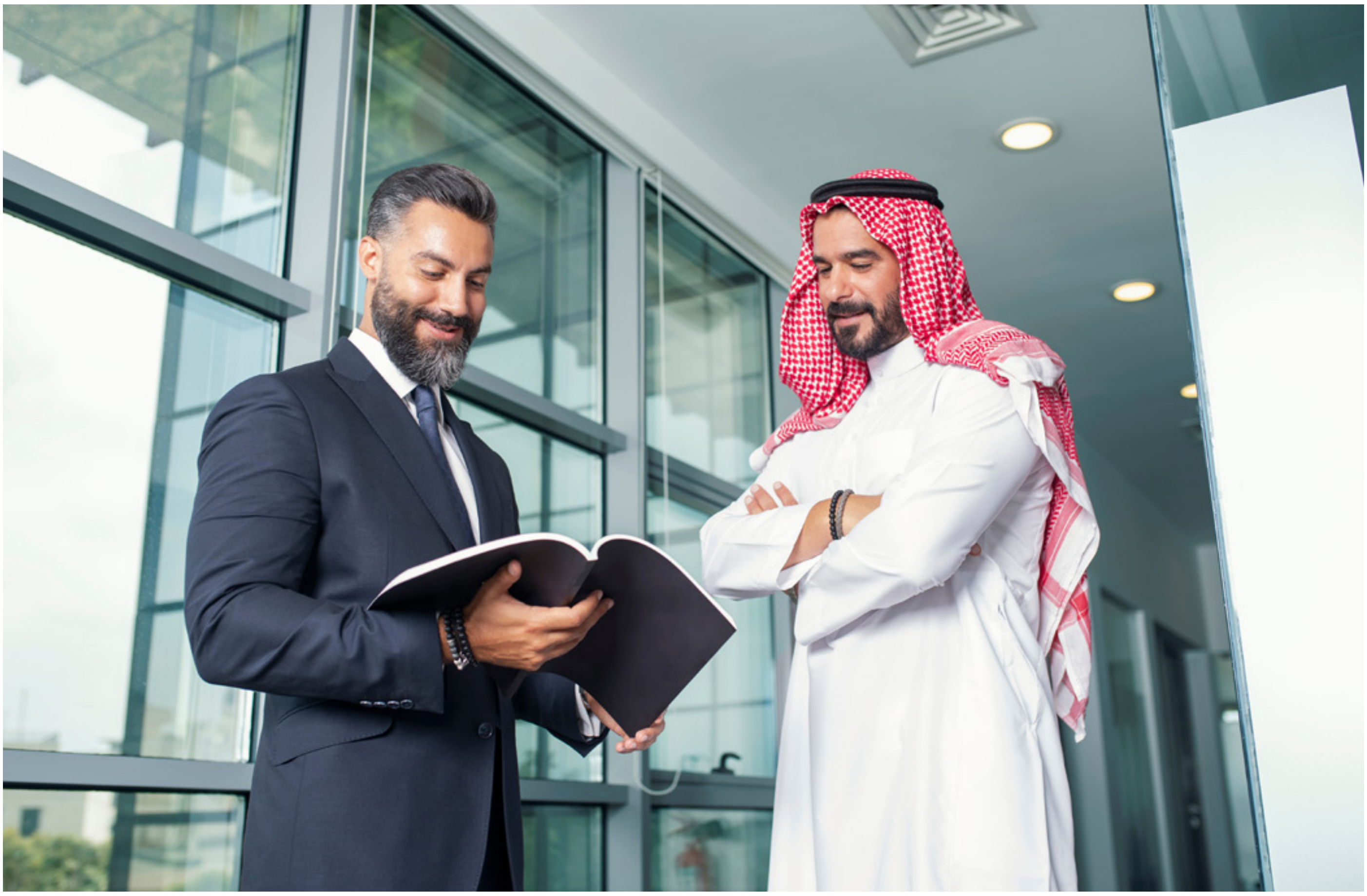
## Double tax treaties

The UAE offers an extensive double tax treaty network, having concluded close to 140 Avoidance of Double Taxation Agreements ("DTAs"). According to the UAE Ministry of Finance, the purpose of these agreements is to "eliminate double taxation, additional taxes, indirect taxes, and fiscal evasion" (UAE Ministry of Finance n.d.).

## FATCA and CRS

Financial institutions in DIFC and ADGM, as part of the UAE, are required to comply with the US Foreign Account Tax Compliance Act ("FATCA") and the Organisation for Economic Co-operation and Development's ("OECD's") Common Reporting Standards ("CRS"). These regulatory frameworks are aimed at preventing tax evasion and promoting transparency.

There are specific exemptions and exclusions for certain types of accounts and entities under both frameworks. However, as these criteria can be complex to navigate, it's important for fund managers to carefully review the regulations and, if necessary, consult with legal or compliance experts to determine their reporting obligations and any applicable exemptions.



## Opportunities and investment trends

The GCC asset management industry is expected to expand substantially in the coming years, surpassing the global average growth rate. Onshore assets under management are projected to increase to nearly US$500bn by 2026, up from $400bn at the close of 2022 (Strategy& n.d.). This growth indicates considerable opportunities for fund managers to build investment products specifically designed for the region's investor base.

Simultaneously, the substantial pools of wealth in the Middle East, Africa, and South Asia ("MEASA") region are creating an increasing demand for specialist fund management services. The community of ultra-high-net-worth individuals in the Middle East is expected to rise by up to 25% over the next five years. Saudi Arabia alone is home to 224,000 millionaires and Qatar has the highest number of millionaires per capita in the world (Hanover 2023).

Both institutions and high-net-worth individuals require experts based in the region to address their unique investment requirements.

### A hub for hedge fund operators

The UAE is establishing itself as a key destination for international hedge fund operators, driven by its growing capital pool. Dubai alone is home to 72,000 millionaires and the UAE holds an estimated USD 996bn in private wealth, with expectations for a 40% increase in high-net-worth individuals by 2031.

The DIFC saw a 125% increase in hedge fund managers establishing operations in 2023. At present, around two-thirds of the hedge funds based in the DIFC come from the US and UK, encompassing two of the world's top 10 largest hedge funds.

Additionally, there has been growing interest from the UAE's sovereign wealth funds and state-owned institutions in alternative investments such as hedge funds. With investments in hedge funds by sovereign wealth funds rising by 11% to USD 498bn in 2022, the UAE presents a compelling opportunity for both international and regional fund managers seeking to establish or broaden their presence in this dynamic market (UAE Ministry of Foreign Affairs n.d.).

### A robust real estate sector

The growth of the UAE's real estate sector, spurred by the country's strategic diversification efforts away from oil, is creating broad opportunities for a diverse set of investment entities, from property funds and Real Estate Investment Trusts ("REITs") to sovereign wealth funds, family offices and others looking to diversify their portfolios. With the real estate sector's expansion, high rental yields and the country's strategic developments, there are numerous opportunities for investment in residential, commercial, retail, hospitality, and industrial properties.

In Dubai, the resilience of the occupier market is evident with a 34.7% year-on-year increase in rental contracts as of the last quarter of 2023, according to the Dubai Land Department. This surge has buoyed rental rates across office market segments, with increases ranging from 8.0 to 20.3%. Similarly, Abu Dhabi has seen rental growth in its office and residential markets, with average prime office rents and apartment prices witnessing upward adjustments.

The residential sales market in Dubai experienced robust growth, rising by 29.6% in 2023 compared to the previous year, and saw significant price increases in both apartments and villas.

The hospitality sector is also contributing to the real estate market's sound performance, with a notable rise in occupancy rates by 4.5 percentage points year-on-year in 2023, reflecting the country's growing appeal as a global tourism and business destination.

In the retail and industrial sectors, rental performance has improved. Average retail rents in Abu Dhabi and Dubai grew by 10.7% and 17.6% respectively, while industrial rents in both cities saw substantial increases (CBRE 2024).

## Greater scope for private equity funds

An increasing number of private equity funds are setting up offices in the UAE, aiming to deepen their ties with the region's affluent sovereign wealth funds and families. While the Gulf has traditionally been a reservoir of capital for investments abroad, there's a notable shift towards investments within the region. Private equity funds are now actively investing in local businesses, establishing on-the-ground teams, and contributing to the growth of the region's asset management industry.

Simultaneously, regional companies are seeking private capital to support their expansion. Family-owned businesses and conglomerates, experiencing growth in size and complexity, are acknowledging the advantages offered by private equity, such as financial resources and strategic guidance. The widespread fragmentation in various industries and sectors creates ideal conditions for private equity firms offering consolidation activities.

Furthermore, a trend toward public-private partnerships is emerging as governments in the region adapt their strategies, providing a fertile ground for private equity investments. Institutional investors and wealthy individuals are also showing an increasing interest in diversifying their investment portfolios with private equity opportunities focused on the region, thereby broadening the scope for private equity ventures in the Gulf.

## A surge in venture financing

Venture capital has experienced remarkable growth over the last ten years in the MENA region, evolving from early seed stage funding to a point where Dubai-based startups are securing Series E and F financing.

According to the Dubai Chamber of Commerce, the region has seen a notable increase in the development of scale-ups, which are startups that have garnered at least US $1m in capital. In 2022, MENA witnessed 749 scaleups across 19 countries attracting a total of US$ 19.5bn in funding. This is a significant leap from 2021's 591 scaleups and US$13.0bn in raised capital, marking a 50% increase from 2021 to 2022 (Dubai Chamber of Commerce 2023).

There's a growing consensus among investors about the need for both seasoned local venture capitalists and influential regional and international investors to support local startups in expanding both regionally and globally. In recent years, global venture capitalists ("VCs") have become more involved in funding rounds within the region. The year 2022 marked a peak in international investment in Dubai-based startups, with a substantial rise from the previous year.

## The IPO landscape

The creation of the Abu Dhabi Securities Exchange ("ADX") and the Dubai Financial Market ("DFM") in the early 2000s marked the beginning of efforts to encourage capital inflows into the UAE. In recent years, the UAE's capital markets have expanded their product offerings, seen a swift rise in Initial Public Offering ("IPOs"), and attracted enhanced market liquidity, marked by significant global capital inflows.

In 2023, MENA markets witnessed 48 initial public offerings ("IPOs"), raising a total of US$10.7bn. In Q4, ADX welcomed three IPOs, generating US$1.8bn; and there was one new listing on the DFM, worth US$315m (EY 2024).

The GCC could be headed for another significant year in IPOs in 2024, with 29 companies set to go public. Key drivers include regional governments' privatisation efforts, private sector companies' increasing desire to generate capital and robust investor interest. Even with varying results from companies that went public last year, the market sentiment continues to be positive. A notable example is the Abu Dhabi-based Lulu retail chain, which is gearing up for a major $1bn IPO (Arabian Gulf Business Insight 2024).

## Growing demand for Islamic financial instruments

The UAE ranks as the fourth largest Islamic finance market globally. Here, the industry has seen substantial growth and diversification, encompassing Islamic banking, finance, takaful (Islamic insurance), and sukuk (Islamic bonds).

The Islamic finance sector has become a crucial component of the UAE's broader financial landscape, supported by a regulatory framework that aligns with Sharia and legal standards. Islamic banking assets constitute 23% of the UAE's total banking assets and have demonstrated a 16% growth over the past five years. Additionally, the UAE's sukuk market is on the rise, further stimulated by the federal government's introduction of local-currency Treasury sukuk, encouraging further issuances in the market.

The UAE has undertaken several initiatives to create a conducive legislative environment and facilitate a more uniform approach to Sharia compliance, aiming to enhance stability and spur innovation. Key developments include the enactment of the UAE's Commercial Transactions Law (Federal Decree-Law No. 50/2022), which has provided much-needed legal clarity.

Fund managers have an opportunity to tap into the increasing demand for Islamic financial instruments among both domestic and international investors, leveraging the UAE's position as a leading Islamic finance hub (Central Bank of UAE 2023).

## An expanding debt market

The UAE has been proactive in developing its debt market, including government and corporate bonds, sukuk, and syndicated loans, offering fund managers a variety of investment avenues.

The UAE's debt market expanded by 10% in 2023, hitting $270bn. Growth is expected to continue, due to capital market developments and more diverse funding sources, with the market surpassing $300bn in the next couple of years. However, higher interest rates and oil prices could pose challenges.

The Fitch Credit Ratings for UAE Islamic bond (sukuk) issuers are mostly stable, with nearly all of them considered investment grade. The mix of Islamic bonds and local currency (Dirham) issuances in the UAE's debt market is expected to increase, driven by the government's new monetary policies, efforts to diversify funding and strong demand from investors, including UAE banks with plenty of cash. The portion of Dirham in the total debt market increased significantly from 2020 to 2023, with the rest mainly in US dollars.

The amount of debt focused on environmental, social, and governance ("ESG") goals has surged by 165% year-on-year, with 40.2% in Islamic bonds (sukuk). The Higher Sharia Authority has encouraged banks to include sustainable Islamic bonds and financing in their offerings (Fitch Ratings 2024).

## Increased support for ESG initiatives

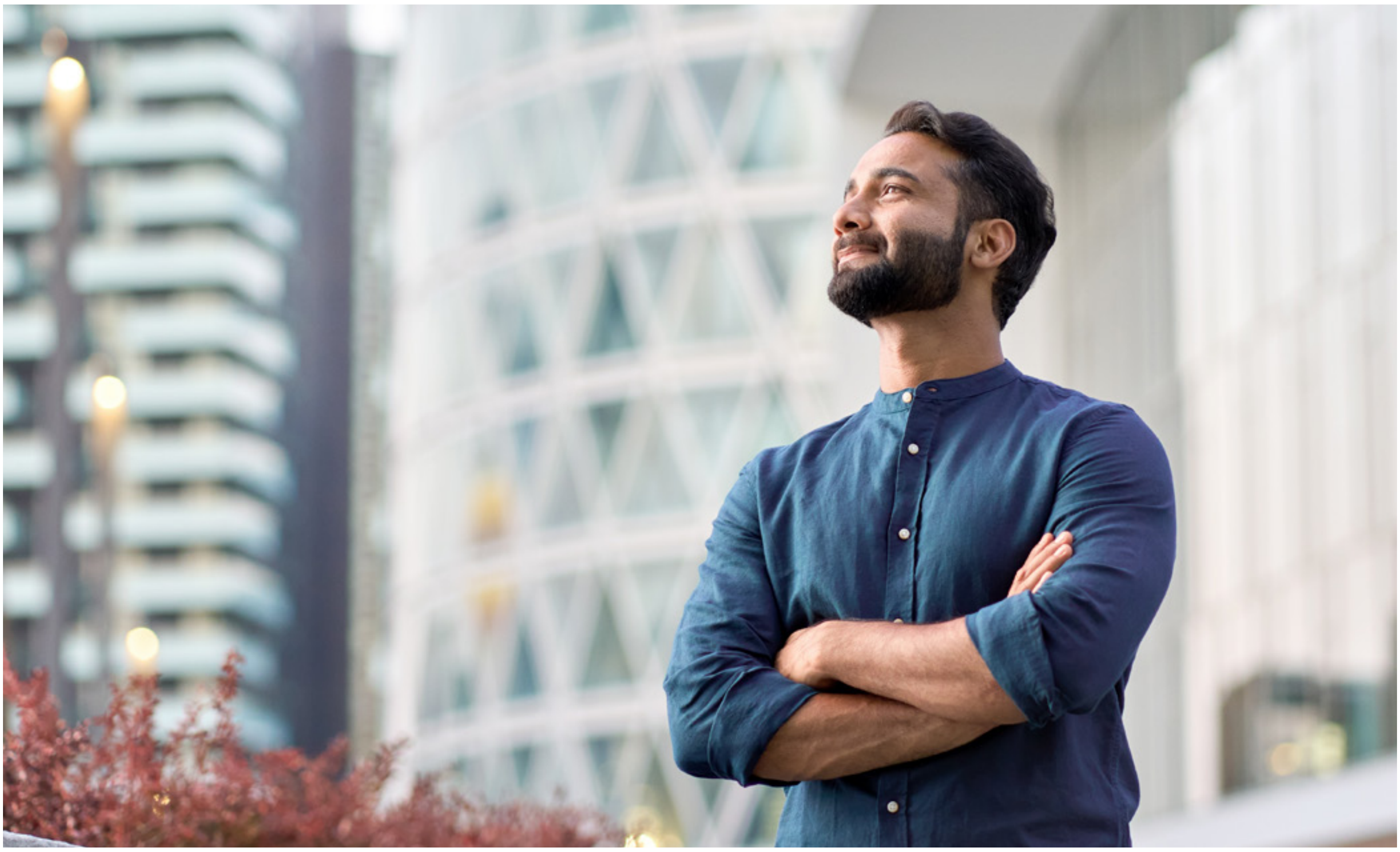
Across the Middle East, governments and financial institutions are beginning to acknowledge the importance of the shift towards sustainable lending practices aimed at supporting ESG goals. Many are integrating sustainability into their economic strategies, which are already focused on moving away from oil and gas reliance.

The UAE has been at the forefront of addressing climate change in the GCC region. In the last ten years, the government has formulated strategies and directed investments towards significant domestic and international projects to promote sustainability. This includes hosting the Noor project, the world's largest single-site solar power plant, and investing in Masdar City, an initiative aimed at creating a sustainable urban environment in Abu Dhabi.

In 2022, the UAE pledged to achieve net zero emissions by 2050, aligning its economy with the Paris Agreement. The following year, it hosted the COP28 UN Climate Change Conference in Dubai, where the DFSA announced a waiver of regulatory fees for listing sustainability-related debt securities in the DIFC for 2024, demonstrating a commitment to fostering sustainable capital markets. Emirates NBD Bank PJSC was the first to benefit from this initiative; and the DFSA has since observed a surge in applications from entities keen to take advantage of this financial incentive, signifying a robust interest in sustainable finance (DFSA 2024).

There has been much discussion around the synergies that ESG investing and Islamic finance share, particularly in their commitment to stable investments aimed at generating positive, sustainable outcomes for society and the environment. Islamic finance uniquely incorporates ethical practices such as prohibiting profit from lending and directing penalties from delayed payments to charitable causes, often supporting ESG goals.

Although Islamic finance and ESG investing differ in several areas, including their approaches to goal setting and engagement, there is a unique opportunity to merge ESG investment strategies with Shariah-compliant practices. This could lead to the creation of innovative financial products that serve both ESG objectives and Islamic finance principles, marking a significant step forward in the development of ethical and sustainable finance.



# Setting up a fund

## In the DIFC

To set up and manage a fund in the DIFC, an entity must be either a DFSA-licensed fund manager or an external fund manager.

### DFSA-licensed fund manager

To obtain a DFSA licence, it's necessary to demonstrate that:

- There are suitable systems and controls in place to manage the proposed fund
- The individuals performing specific functions within the firm, including board members, senior management, compliance, and other control functions, meet the relevant criteria for professional suitability and integrity

### External fund manager

A fund manager from an acceptable jurisdiction may establish and manage a Domestic Fund without having to obtain a DFSA licence, provided:

- It is a body corporate
- It operates the Domestic Fund from an office in a region that is either on the DFSA's list of Recognised Jurisdictions or is deemed by the DFSA to have sufficient regulatory oversight
- It agrees to adhere to the laws of the DIFC and to submit to the jurisdiction of its court
- It appoints a DFSA-licensed fund administrator or trustee to carry out specified functions

## Fund vehicles

Three types of vehicles can be used to establish a Domestic Fund in the DIFC:

1. Investment companies
2. Investment trusts
3. Investment partnerships

## Fund types

The DFSA's Fund Regime allows for the following types of funds.

| Public funds |
|---|
| • Offer enhanced safeguards for a broader investor base, including retail investors.<br>• Require fund managers to add a Retail Endorsement to their license. |

| Exempt funds |
|---|
| • Benefit from a fast-track notification process (DFSA aims for completion within 5 days).<br>• Attract fewer regulatory requirements than Public Funds. |

| Qualified investor funds ("QIF") |
|---|
| • Involve a lighter touch regulatory approach.<br>• Require self-certification regarding the adequacy of systems and controls.<br>• Enjoy a fast-track notification process (DFSA aims for completion within 2 days).<br>• May be established in the DIFC by a DFSA-licensed fund manager or by an external fund manager. |

## In ADGM

The fund management framework of ADGM offers a variety of choices for carrying out fund management activities. ADGM fund managers are allowed to oversee funds within ADGM as well as those based outside of the jurisdiction. Foreign fund managers that meet certain criteria are also allowed to manage funds within ADGM. Additionally, certain firms are granted permission to market funds that are not based in ADGM.

The following options are available for Domestic Funds. These include those that are established and domiciled in ADGM, those that have an ADGM-based or foreign fund manager, and those that are marketed in or from ADGM.

## Fund types

| Public funds | Exempt funds | Qualified investor funds ("QIF") |
|---|---|---|
| • Intended for retail clients and made available by public offer.<br>• Attract a higher level of regulatory scrutiny.<br>• Require registration with the FSRA involving lodgement of a prospectus.<br>• Subject to risk-diversification requirements regarding investment and borrowing powers. | • Intended for sale to professional clients by private placement.<br>• Attract fewer regulatory requirements than Public Funds.<br>• Fund manager needs only to notify the FSRA before the initial offer of units.<br>• No need to be initiated by the broker and details of any service providers involved.<br>• A relatively low minimum investment level of USD 50,000.<br>• Not constrained by a maximum number of investors. | • Intended only for sale to market counterparties and sophisticated professional clients by private placement.<br>• Attract a comparatively lower level of regulation than Exempt Funds.<br>• Only require notification to the FSRA prior to the initial offer of units.<br>• No upper limits on investor numbers.<br>• The minimum investment size is USD 500,000. |

(ADGM 2020)

## Fund vehicles

| Open or Closed Ended Investment Companies | Limited Investment Partnerships | Investment Trusts | Protected Cell Companies ("PCC") & Incorporated Cell Companies ("ICC") |
|---|---|---|---|
| • Allow for the incorporation of a fund vehicle using a corporate entity under the ADGM Companies Regulations.<br>• Open-ended: Enable the operation of traditional funds with regular subscription and redemption possibilities.<br>• Closed-ended: May be used to structure a listed fund vehicle. | • Can be used as the basis for ADGM fund structures. | • Can be used as the basis for funds in ADGM.<br>• A fund manager may appoint an eligible trustee through a trust deed to establish an investment trust in accordance with provisions in the Financial Services and Markets Regulations 2015. | • ADGM permits the structuring of funds and fund umbrellas using PCCs and ICCs.<br>• Allows fund managers to legally segregate the assets and liabilities of each cell while operating under common management. |

(ADGM 2020)

## Fund structures

**SPVs (Special Purpose Vehicles):**

These can be deployed by fund managers who are DFSA-licensed for purposes such as segregating assets or creating holding entities.

**Restricted scope companies:**

These are unique ADGM special purpose vehicles which have the advantage of rapid and cost-effective incorporation processes, with minimal public disclosure obligations.

**General partner SPV:**

Managers of funds structured as limited partnerships may select a general partner SPV for their structural needs.

Alternatives include:

**Master/feeder structures:**

Within ADGM, funds have the flexibility to act as a master fund, be a feeder into an international fund or serve as a feeder into another ADGM-based fund.

**Umbrella funds:**

ADGM's regulatory environment supports the use of Umbrella Funds, allowing for a single fund to encompass multiple sub-funds, each with distinct investment goals and policies.

(ADGM 2020)

## Obtaining a VASP Licence to engage in virtual asset activities

As mentioned, firms aiming to operate in Dubai's virtual asset sector, excluding DIFC, must obtain a VASP Licence. Onshore businesses should apply through DET, while those in Dubai's free zones (other than the DIFC) should approach the respective free zone authority.

Applying for a VARA Licence is completed in two stages:

**Stage 1:**

Firms must first apply for initial approval to establish a legal entity and begin setting up their operations. This involves:

- Submitting an Initial Disclosure Questionnaire.
- Providing additional documentation, such as a business plan and beneficial owner details.
- Paying initial fees (typically 50% of the licence application fee).

Once the review has been completed and the firm receives an initial approval, the firm may begin finalising its legal incorporation and operational setup but will not be permitted to carry out virtual asset related activities.

**Stage 2**

Following receipt of an Initial Approval, a firm can apply for a VASP Licence. This involves:

- Submitting documentation in line with VARA guidance.
- Providing additional documentation or attending meetings and interviews as required by VARA.
- Paying the remaining portion of the application licence fees, as well as supervision fees for the first year.

Upon approval, the VASP licence will be issued. This may be subject to operational conditions.

(VARA 2024)

## The regulatory application process

When applying for regulatory approval to establish a presence in the UAE, organisations should:

**Step 1:** Speak to their advisor(s) to decide on the relevant jurisdiction

**Step 2:** Arrange for an initial conversation with the selected regulator

**Step 3:** Appoint a compliance consultant to manage the application process

**Step 4:** Prepare an initial regulatory business plan and review it with the regulator

**Step 5:** Incorporate any initial guidance provided by the regulator into the application

**Step 6:** Submit the application along with the required fees

**Step 7:** Begin preparing the legal documents

**Step 8:** In parallel, start working on standard pre-approval conditions, such as securing real estate, opening bank accounts, appointing fund administrators, engaging a PR/marketing agency, selecting custodians, and hiring external and internal auditors. Also, address visa and expatriate issues for employees. This may involve applying for and setting up a non-operating company.

**Step 9:** Begin planning for the launch of the new entity

**Step 10:** Start planning for capital raising or distribution

**Step 11:** Upon receipt of the in-principle approval from the regulator, convert to or establish the operating company/entity in the selected jurisdiction

**Step 12:** Submit all required proofs to complete the requirements for a full license to the regulator

**Step 13:** Receive final approval from the regulator

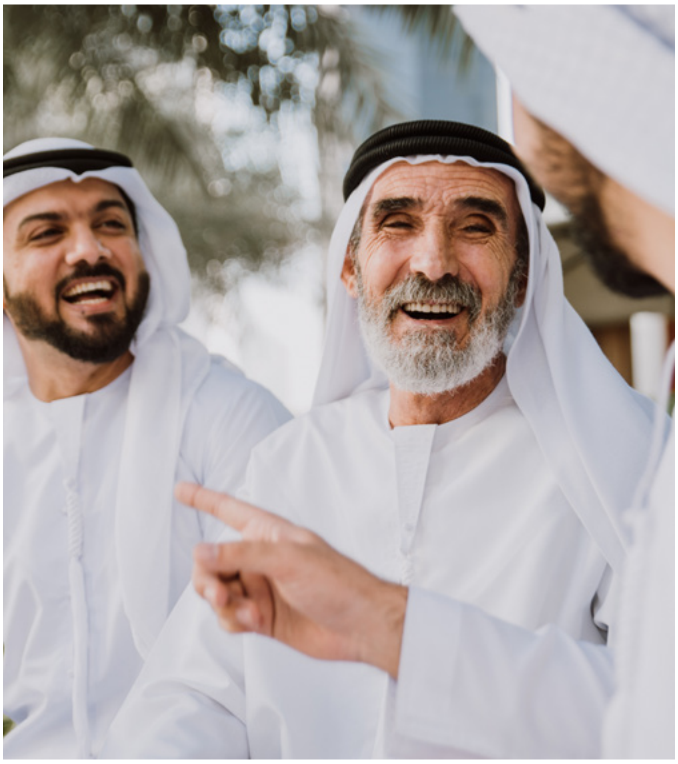
**Step 14:** Go live and launch the fund or entity

### Apex provides local knowledge and support

When knowledge and resources are needed during this process, Apex, a global provider of financial services, offers on-the-ground support. Since 2006, Apex has been providing local fund services to clients in the Middle East, operating from offices in Abu Dhabi, Dubai, and Bahrain.

Assistance from Apex includes:

- Offering legal, tax, compliance, and other advisory services.
- Facilitating initial conversations with selected regulators.
- Managing the application process through the appointment of a compliance consultant.



## How to hire and manage talent

Employment within ADGM and the DIFC is governed by their respective laws rather than the broader UAE Labour Law framework. Despite these legal distinctions, there are overarching employment trends and developments across the country that employers need to consider.

### Strong employer branding

In this dynamic job market, companies are increasingly focusing on enhancing the candidate experience to attract top talent. A positive interaction with potential hires is crucial and businesses are investing in strong employer branding and tech-enabled recruitment practices for increased efficiency.

### The rise of hybrid and flexible working arrangements

The hybrid work model is another trend that has taken hold in the region, with approximately 70% of UAE companies offering this flexibility. By adopting this model, businesses can position themselves as progressive and adaptable employers in the eyes of prospective candidates (DIFC 2023).

At the same time, the traditional Sunday-to-Thursday working week in the UAE evolved. To align more closely with Western norms, there was a shift towards adopting a Monday-to-Friday workweek. In January 2022, the UAE adopted a four-and-a-half-day working week for federal government entities, along with establishing Saturday and Sunday as official weekend days for the government sector.

### Community involvement

Lastly, companies that are seen as contributing positively to the wider society gain a competitive edge in the job market, positioning themselves as employers of choice for job seekers who value corporate responsibility and community involvement.

Part of this could involve supporting local initiatives such as Emiratisation, a UAE government initiative that aims to integrate more nationals into the workforce. Effective from January 2023, private sector companies are required to increase their Emirati workforce by 2% annually, aiming for a 10% quota. While this is not mandatory for entities within free zones, it reflects a commitment to inclusivity and community involvement (UAE Government Portal 2023).

## Living in the UAE

The UAE provides a high quality of life, featuring modern accommodation, advanced medical facilities, reputable international schools, and a well-developed infrastructure. The vibrant cities of Abu Dhabi and Dubai offer a variety of entertainment options such as beautiful beaches, water sports, indoor skiing, fine dining, and extensive shopping malls.

However, this lifestyle has its price, as the cost of living in the UAE has risen in recent years. In a 2023 study of the most expensive cities in the world for international employees, Dubai was ranked 18th and Abu Dhabi 43rd. Both have seen increases in their rankings since last year, with key drivers being higher rental, food, and transportation costs (Mercer 2023).

### Housing

In the UAE, rental prices are relatively stable, yet accommodation remains a significant expense. To rent, one needs a residence visa, passport, proof of residence, and income verification when signing a lease. Housing standards are high, offering a variety of choices including apartments with shared amenities like gyms, saunas, and pools, and compound villas with facilities such as medical clinics, tennis courts, and restaurants.

### Local culture

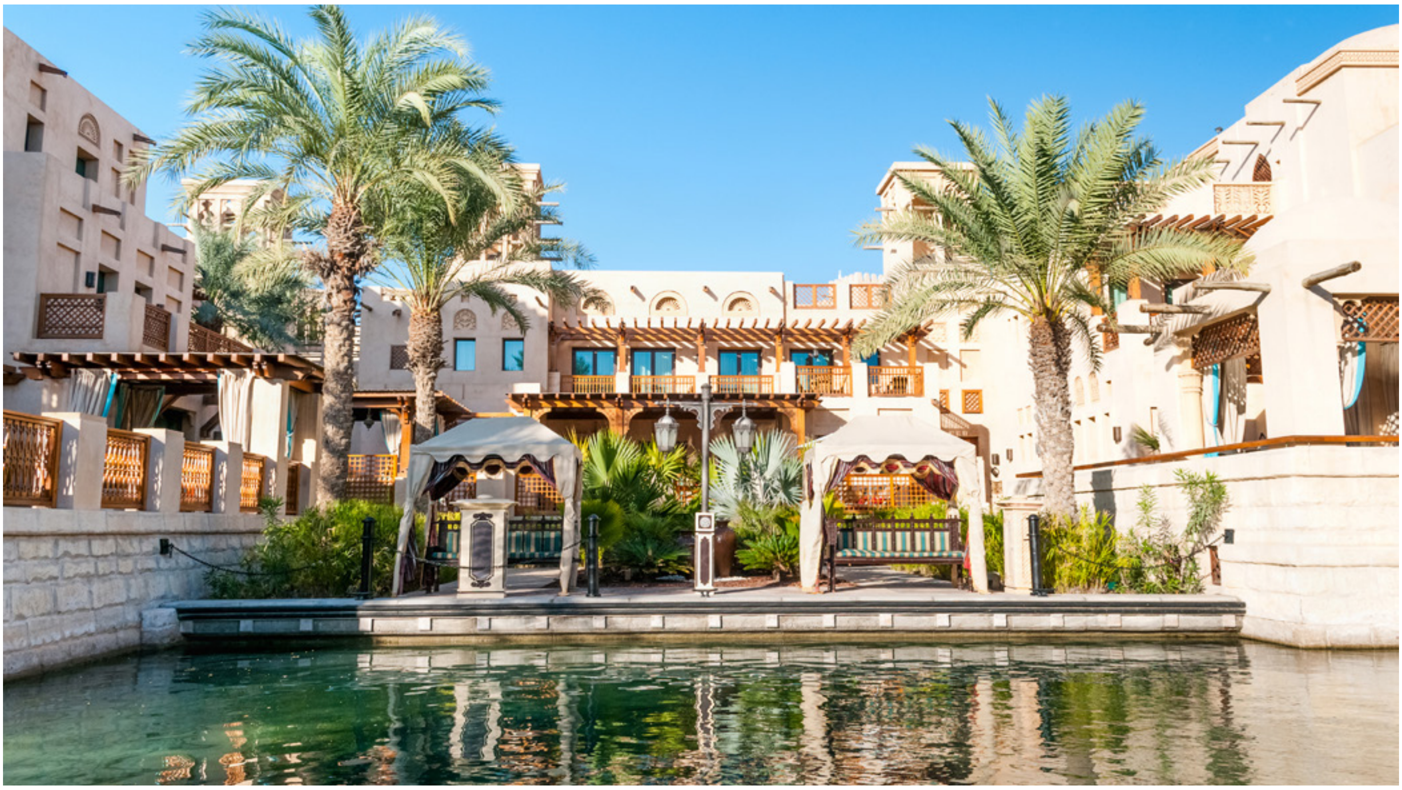
Adapting to the conservative culture and dress code can be an adjustment for some. Many women wear the traditional hijab or abaya. While foreigners aren't expected to follow this custom, they are advised to wear modest attire that covers shoulders and legs in public spaces.

The UAE government has recently expanded personal freedoms for both expats and locals in the country. Access to alcohol has been relaxed and the cohabitation of unmarried couples is legal.

Ramadan represents the most sacred period in the Islamic calendar. During this month, numerous businesses adjust to shorter operating hours and provide designated dining areas for non-Muslim staff.

### Healthcare

The UAE has a high-quality healthcare system with advanced facilities. The United Arab Emirates Cabinet recently announced that beginning in 2025, private-sector companies must provide health insurance for their non-national employees, extending a requirement already in place in Abu Dhabi and Dubai to the other five emirates. Foreign nationals must undergo a health assessment to obtain a residence visa (UAE Government Portal 2024).



# About Apex UAE

As a global financial services provider with a longstanding presence in the Middle East, Apex partners with investment managers, advisors, banks, and family offices, addressing both their local and international needs across the region and beyond.

We have been delivering local fund services to clients in the Middle East since 2006 and currently have a team of over 850 regulatory, operational, and product experts on the ground, ready to provide the required capabilities and hands-on support. Our offices in Abu Dhabi, Dubai, and Bahrain put us in close proximity to our clients, allowing us to understand their requirements in a local context and tailor solutions to their individual needs.

With global capabilities and local lens, Apex supports a wide variety of fund strategies including hedge, private equity funds, fund of funds, venture capital, real estate, and macro funds. Our services cater to both conventional and Shariah-compliant structures. Through our single source solution, we deliver a comprehensive range of fund administration and investor services, including fund accounting and NAV calculations, digital investor onboarding, SPV administration, preparation of financial statements and co-ordination of the audit process.

Our tailored real assets fund services leverage managed services at the property level, combined with property-level reporting, best-in-class dedicated proptech software, and a local team of real assets experts with extensive experience in servicing real assets managers.

Apex provides local management company ("ManCo") and middle office services alongside various corporate and business support services. Our local compliance experts assist with regulated personnel outsourcing, licensing, regulatory applications, and training. We also offer extensive ESG and sustainability services through our wider group.

Catering to Shariah-compliant investments, we provide dividend purification, Shariah reporting, and Zakah calculations, in line with guidance from Shariah advisors.

We are regulated by the Financial Services Regulatory Authority, holding an ADGM license, and the Dubai Financial Services Authority, the SCA, and CBB for Bahrain, ensuring our operations meet stringent regulatory standards.

To find out more, please contact the team.

## We service the whole value chain

**Capital raising**

- Distribution platforms
- FundRock distribution
- Profilir
- Escrow
- apexinvest.io
- Investment advisory

**Business and corporate management**

- Corporate and business Services
- SPV administration
- ESG carbon footprint Reporting
- Digital banking
- Compliance services
- Capital markets services

**Fund and investor administration**

- Fund services
- Transfer agency
- Trade support
- Risk and performance
- ESG invest check
- Digital banking
- Fund compliance

**Portfolio and investment administration**

- Portfolio monitoring
- FoF look through reporting
- Property administration
- Treasury services
- Global custody
- Valuation services
- Hedge fund middle office

**European market access and global expansion**

- Super ManCo
- Depositary
- Apex BASE
- Capital markets services
- Regulatory compliance

**Transaction support**

- SPV setup/admin
- Trustee services
- Loan agency
- Security agency
- Paying agency

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