

United Arab Emirates

Afridi & Angell

UAE's transparent vision for 2021

Institutions, companies, banks and regulators alike have been mulling over what measures should be implemented to boost investor confidence in the wake of the global economic downturn.

Dubai has been under scrutiny, perhaps more than most, in light of the Dubai World debt restructuring and the number of development go-slows. An overall lack of transparency in both public and private organisations is what has emerged.



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Whilst Dubai continues to reorganise its state-owned enterprises, through various reshuffles of senior management and processes of consolidation, the decision-making involved remains opaque. Financial

information on public assets in Dubai remains largely unavailable, with a few notable exceptions.

The private sector does not fare any better, with financial disclosure remaining relatively weak. Many companies are unwilling to share their books, even with their own banks. Bookkeeping standards vary and publicly listed companies prefer to disclose only the minimal financial data, as strictly required by the stock market regulator.

This has raised the topics of transparency and the need to improve governance in both the public and private sectors.

Transparency implies, whether in public or private organisations, the reliable disclosure of key information to investors including decision-making mechanisms, administrative procedures, resource allocation, financial information and strategic vision.

Recent reports indicate that the Gulf's markets are being overtaken by other emerging markets. This is seen, in part, as a result of low transparency. Where transparency is low it often fails to attract

long-term investors and instead it is the hedge funds which invest (given their flexibility and opportunistic nature). This results in market volatility, further compounding the situation because it is unattractive to the long-term investor.

How is transparency being addressed?

Late 2009 saw the introduction of enhanced corporate governance rules and discipline standards (Ministerial Resolution 518 of 2009) for UAE Public Joint Stock Companies (a PJSC must be listed on either the Abu Dhabi Securities Exchange or the Dubai Financial Market). Ministerial Resolution 518 has the aim of increasing investor confidence in the UAE's capital markets.

Listed entities were given only five months to adopt the new protocols. The implementation date was April 30 2010. While the legislative framework of Ministerial Resolution 518 provides for increased transparency and accountability, the effect of such provisions largely remain to be seen given the recent implementation date.

Recently, the UAE Ministry of Economy, the body responsible for preparing draft laws in relation to the UAE economy and commercial activities, announced that they are in the process of developing a whole series of new laws which seek to promote efficiency and impose greater transparency in order to improve investor confidence.

The new laws are part of a general overhaul of the UAE legislative system in a bid to enhance the business environment in line with the UAE's strategic vision for 2021.

2021 marks the golden jubilee of the formation of the UAE and Vision 2021 is a strategy which aims to promote the UAE, particularly as a global business centre and investment destination. In response to this the UAE Ministry of Economy is apparently in the process of preparing a set of new laws which include a foreign investment law (which is envisaged to unify legislation for foreign investment), an auditors law (aims to strengthen the auditors profession and contribute to achieving greater transparency and disclosure of UAE institutions) and a new companies law (with a sophisticated corporate governance framework to protect shareholders, achieve transparency and disclosure of financial results and reports), to complement the 2021 Vision.

While new laws which promote

transparency are to be greatly welcomed there are limitations. It remains to be seen whether such corporate governance provisions will apply equally to state-owned entities or whether there will be particular exemptions from compliance. Up until the date of implementation of such new measures, there continues to be potential consequences for both the quality and stability of investments and investor confidence in the UAE.

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