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UAE Launches New Financial Free Zone in Abu Dhabi

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The federal government of the United Arab Emirates (“UAE”) has issued legislation establishing a new financial free zone in Abu Dhabi. The name of the new free zone, “Global Marketplace Abu Dhabi” (“GMAD”), serves as a statement of Abu Dhabi’s ambition for this new free zone to act as a hub for financial services.

GMAD will be based on Al Maryah Island in Abu Dhabi but will be subject to a new regulatory framework and judicial system separate to that otherwise applicable in the UAE, a move that has led to widespread comparisons with the Dubai International Financial Centre (“DIFC”) and other financial free zones in the Gulf.

Free zones in the UAE

The UAE is home to a range of well established free zones, the majority of which are located in Dubai. Free zones provide a number of benefits aimed at attracting foreign investors, including exemptions from foreign ownership restrictions and guarantees on the non-imposition of tax and custom duties.

Free zones are generally given scope to implement their own legal frameworks, although the sophistication of such legal frameworks differs greatly from free zone to free zone. Free zones are generally treated as “offshore” jurisdictions for the purposes of UAE law. Free zones in the UAE are specialized in a range of different areas, ranging from industry and trade to commodities and financial services.

Currently, the only financial free zone in the UAE is the DIFC, which benefits from an independent common law legal framework and an independent regulatory regime based on the UK FSA model. It also has its own judicial system and arbitration centre modelled on international best practice and an independent securities exchange, NASDAQ Dubai. As a financial free zone, the DIFC is exempt from the civil and commercial laws of the UAE, a benefit GMAD will also enjoy due its equivalent status.

Key features of GMAD

While limited details have emerged as to GMAD’s exact characteristics, press releases reveal that three main authorities will be established for the purpose of governing GMAD: (i) a general authority; (ii) a regulatory authority and (iii) a judicial body. Press releases also indicate that GMAD will be home to a securities exchange with trading hours aimed at bridging the gap between the closing of Asian markets and the opening of European markets. The regulatory authority of GMAD will be empowered to license institutions to undertake a wide range of financial activities, ranging from banking to custodianship.

No indication has been provided as to whether GMAD’s legal framework and governing authorities will be modelled on their equivalents in common law jurisdictions in a similar vein to the DIFC. The sophistication and attractiveness of GMAD’s legal framework, in addition to the ease of doing business within the free zone, will play a key role in its ability to attract international investors.

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A competitor to the DIFC?

Since the enactment of the laws establishing GMAD, many comparisons have been made with the DIFC in Dubai, which is nearing its tenth year of operations and has positioned itself as the premier financial hub of the Middle East and North Africa region. As more details emerge, it will become clearer as to whether GMAD will act as a competitor to the DIFC or whether it will seek to complement it by targeting a separate market. The establishment of GMAD, however, is an important step in Abu Dhabi's goal of diversifying its economy and attracting further international investment, and will act to further strengthen the UAE's overall position as the premier financial hub of the region.

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