

Legal Alert



DIFC Special Purpose Companies and Exempt Activities: a special purpose

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The special purpose company (SPC) regime in the Dubai International Financial Centre (the **DIFC**) offers a vehicle that is convenient for use in many types of corporate finance transactions. A DIFC SPC is relatively quick and easy to establish and inexpensive to maintain on an ongoing basis as compared to a DIFC company limited by shares.

All SPCs are governed by and subject to the DIFC Special Purpose Company Regulations (the **SPCoR**). Importantly, the SPCoR stipulates that an SPC can only be used for an "Exempt Activity". In summary, the SPCoR requires that an SPC be used only where some form of financing, debt or capital markets transaction is contemplated.

Those that seek to use an SPC in their corporate structures must take this limitation into account. The DIFC Registrar of Companies is granted the right to review the status of a DIFC SPC, and to revoke the privileges and exemptions granted to an SPC by the SPCoR, should an SPC undertake any activity which is not an Exempt Activity. Specifically, this means that an SPC should not be used merely as a holding company, where there is no genuine financing element that would qualify as an Exempt Activity under the SPCoR. We are aware that the DIFC authorities have recently stepped up enforcement activity in an effort to ensure that all SPCs are adhering to the restrictions set forth in the SPCoR in letter and spirit. This approach could affect the viability of using an SPC as a mere holding vehicle in new structures, and could also affect existing structures if the DIFC authorities choose to examine the stated versus actual activities of existing SPCs. ■

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