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New Commercial Transactions Law: Amendment to the Period of Limitation

By Mevan Bandara and Tanya Garg | 11 October 2023

The new commercial transactions law (Federal Decree Law 50/2022), which abrogated Federal Law 18/1993, has significantly reduced the period of limitation for initiating action relating to commercial transactions between 'merchants' from ten years to five years.

Application of the new commercial transactions law

The new commercial transactions law applies to merchants and all forms of commercial activities. The new commercial transactions law has broadened its ambit to include virtual commercial activities as well, i.e., commercial activities carried out by any person (even if the person is not a trader) through modern mediums of technology or in the technological sphere. The term 'merchants' is broadly defined and includes every person performing acts of commerce, and every company engaging in commercial activity in a form specified by Federal Decree Law 32/2021 on Commercial Companies.

The period of limitation

Under the now-repealed 1993 commercial transactions law, parties could bring actions relating to the commercial obligations of merchants within ten years from the breach of a contractual obligation (**Old Period of Limitation**). However, the new commercial transactions law prescribes that parties must initiate action within five years from the date the cause of action arises (**New Period of Limitation**). It is pertinent to note that the New Period of Limitation is shorter than the limitation period prescribed by the laws of England and Wales, which is six years from the date the cause of action arises.

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What effect does the new limitation period have on a cause of action that arose before the new law?

An important question that would arise is, what would happen to those transactions where the cause of action arose prior to the effective date of the new commercial transactions law? The answer may be found in Articles 6 and 7 of the UAE Civil Code:

- a) If the application of the New Period of Limitation would result in the expiry of a party's right to commence action prior to the new commercial transactions law coming into force (2 January 2023), the Old Period of Limitation will be applied. For example, if the cause of action arose in 2014, in accordance with the Old Period of Limitation, the party would have the right to institute action until 2024. On the other hand, if the New Period of Limitation were to be applied, the party's right would have lapsed in 2019 (prior to the new commercial transactions law coming into force). In such circumstances, the Old Period of Limitation will be applicable in order to prevent prejudice being caused to such party
- b) If, on the effective date of the new commercial transactions law, the duration of a party's right to commence action is longer than the New Period of Limitation, the duration of such right will be reduced in accordance with the New Period of Limitation. For instance, if on 2 January 2023, a party has the right to bring an action within eight years, such right will be reduced to five years.
- c) If, on the effective date of the new commercial transactions law, a party has the right to commence an action within three years (shorter than the New Period of Limitation), the period of three years will continue to apply. ■

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