IN-DEPTH

Islamic Finance And Markets Law

UNITED ARAB EMIRATES

LEXOLOGY

Islamic Finance and Markets Law

Contributing Editors
John Dewar and **Munib Hussain**
Milbank LLP

In-Depth: Islamic Finance and Markets Law (formerly The Islamic Finance and Markets Law Review) provides a general overview of the manner in which Islamic, or shariah-compliant, finance is practised in various jurisdictions throughout the world. With an eye towards recent developments, it illustrates the dynamic manner in which Islamic finance has adapted and continues to develop globally.

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United Arab Emirates

Rahat Dar
Afridi & Angell

Summary

Introduction

In addition to being the home of modern Islamic finance, with the establishment of the first Islamic commercial bank (Dubai Islamic Bank) in 1975, the United Arab Emirates (UAE) provides an attractive global financial hub from which to provide Islamic finance services and products into the Gulf Cooperation Council (GCC) and beyond. The UAE is a vibrant global financial centre, located in the centre of the Asian and Western financial markets, which provides a legal system and a judiciary that is familiar with the principles of sharia. Today, the UAE stands as one of the most advanced countries in Islamic finance, supported by a well-established Islamic financial industry, comprising Islamic banks, Islamic banking windows, Islamic finance companies and Islamic insurance (-*takaful*) companies. According to UAE Central Bank records, there are currently nine fully fledged local Islamic banks, including foreign Islamic banks licensed to operate in the UAE. In addition, there are 15 conventional banks which have also established Islamic banking windows, 10 Islamic finance companies in the UAE and 10 Islamic insurance companies.

Year in review

As reported by the UAE Central Bank, the UAE has continued to achieve improvements in its global Islamic finance ranking, rising to third place, with Islamic banking industry assets passing the 1 trillion dirhams mark (UAE Central Bank's Annual Report 2024). According to the ICD-LSEG Islamic Finance Development Report 2024, produced by the Islamic Corporation for the Development of the Private Sector and the London Stock Exchange Group, the industry saw a double-digit growth of 11 per cent with Islamic assets reaching US$4.9 trillion in 2023. Growth continues to be driven by Islamic banking, which grew by 12 per cent to US$3.6 trillion in assets. Notably, the *sukuk* market expanded by 9 per cent to US$863 billion, with over US$200 billion in issuances in 2023 alone. According to the UAE Central Bank, the UAE's Islamic banks took a leading role in arranging global *sukuk* issuances, accounting for US$45 billion, or 19.24 per cent out of US$228.5 billion global *sukuk* issuances, solidifying the UAE as a leading international hub in facilitating global Islamic financial activities. According to the UAE Central Bank's Annual Report 2024, the aggregate of assets held by the UAE's Islamic banking sector passed the 1 trillion UAE dirhams in 2024, standing at 1,089.5 billion UAE dirhams.

Legislative and regulatory framework

The United Arab Emirates (UAE) has always provided an attractive environment from which to provide Islamic finance services and products into the Gulf Cooperation Council (GCC) and beyond. In addition to being an established and vibrant global financial centre and having its geographical location in the centre of the Asian and Western financial markets, the UAE also provides a legal system and a judiciary that is familiar with the principles of sharia. The UAE's Constitution[1] identifies sharia as a principal source of law and the UAE Civil Code,[2] which is deeply anchored in sharia, recognises the basic Islamic financing contracts. The UAE has a well-established Islamic financial industry, comprising Islamic banks, Islamic banking windows, Islamic finance companies and Islamic insurance (-*takaful*) companies. According to UAE Central Bank records, there are currently nine fully fledged local Islamic banks, including foreign Islamic banks licensed to operate in the UAE. In addition, there are 15 conventional banks which have also established Islamic banking windows, 10 Islamic finance companies in the UAE and 10 *takaful* companies.

Specific terms for Islamic contracts

The UAE Commercial Code, which came into effect on 2 January 2023, provides specific descriptions for Islamic contracts including UAE Federal Law No. 50 of 2022 on the Promulgation of the Commercial Transactions Law.[3]

Murabahah

Article 481 of the UAE Commercial Code defines a *murabahah* as:

> [a] contract whereby the seller sells an asset to the purchaser after the seller acquires it and possesses it in fact or *de jure* based on a request for financing from the purchaser. The sale shall be at cost plus a fixed amount of profit specified in the contract, and the sum thereof shall be the price of the *murabahah* sale.

Istisna'

Article 483 of the UAE Commercial Code defines an *istisna'* as:

> [a] contract whereby the seller sells a described item as a disclosure to the purchaser of which the manufacture of the item is required at a fixed total price specified in the contract and in which the nature, type, quantity and required descriptions of the sold item are specified, with a future delivery date specified.

Salam

Article 488 of the UAE Commercial Code defines a *salam* as:

> [a] contract whereby the seller sells an item for deferred delivery to the purchaser, and it is not stipulated that it be manufactured at an expedited rate.

Wa'd

Article 475 of the UAE Commercial Code states that a *wa'd* contract promise is:

> 1- An undertaking by one of the contracting parties to conclude a specific contract in the future, and this undertaking is binding on the promising party only.
>
> 2- If the promisor fails to meet the promise without an acceptable excuse, he shall be obligated to compensate the promised person, and compensation in such case shall be limited to the value of the direct actual damage to the promised person.

Ijarah

Article 491 of the UAE Commercial Code states that an *ijarah* is:

> [a] contract whereby the lessor leases a specific property or a property described as a disclosure owned by him or leased from him for a fixed fee specified in the contract or a variable fee to be paid in one payment or in instalments of known amount and terms.

Responsibilities

While the emirate of Dubai has established itself as a major centre for business and commerce, the UAE is a relatively young country and the laws and regulations applicable to financial products and services (including Islamic finance) are rudimentary – often just providing a mandate for the formation of regulatory authorities to govern the provision of the relevant financial products and services in the UAE. Consequently, the detailed rules, regulation and policies concerning financial products and services are left to the discretion of the relevant regulatory authorities. The internal rules, policies and guidelines implemented by the authorities relating to the relevant financial products are not always made public. The laws relevant to Islamic financial services are in many cases diffused in multiple pieces of legislation, and the coverage of issues (including consumer protection) is general rather than comprehensive.

Islamic banking

The UAE Central Bank has reported that the UAE has continued to achieve improvements in its global Islamic finance ranking, rising to third place, with Islamic banking industry assets passing the AED 1 trillion dirhams mark (UAE Central Bank's Annual Report 2024). According to the ICD-LSEG Islamic Finance Development Report 2024, produced by the Islamic Corporation for the Development of the Private Sector and the London Stock Exchange Group, the industry saw a double-digit growth of 11 per cent with Islamic assets reaching US$4.9 trillion in 2023. Growth continues to be driven by Islamic banking, which grew by 12 per cent to US$3.6 trillion in assets and a notable year for *sukuk* growing by 9 per cent to US$863 billion, with over US$200 billion in issuances in 2023 alone. According to the UAE Central Bank, the UAE's Islamic banks took a leading role in arranging global *sukuk* issuances, accounting for US%45 billion, or 19.24 per cent of the US$228.5 billion global *sukuk* issuances, solidifying the UAE as a leading international hub in facilitating global Islamic financial activities. According to the UAE Central Bank's Annual Report 2024, assets held by the UAE's Islamic banking sector passed 1 trillion dirhams in 2024, standing at 1,089.5 billion dirhams.

The principal governmental and regulatory policies that govern the UAE banking sector, including Islamic banks (except in the two financial free zones, the Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM), each of which has its own regulatory authority), are the Banking Law,[4] which came into force on 30 September 2018 and repealed UAE Federal Law No. 10 of 1980 concerning the UAE Central Bank, the Monetary System and the Organisation of Banking and UAE Federal Law No. 6 of 1985 concerning Islamic banks, financial establishments and investment companies; the Commercial Code; and the various circulars, decisions, notices and resolutions issued by the board of governors of the UAE Central Bank, from time to time, and that deal with various aspects of banking, including bank accounts, maintaining of certain reserve ratios, capital adequacy norms and reporting requirements to the UAE Central Bank. Under the Banking Law, UAE Central Bank circulars, decisions, notices and resolutions and the resolutions issued by the higher sharia authority (the Higher Authority).

The Banking Law is the primary legislation giving the UAE Central Bank the authority to regulate financial services (including Islamic financial services) in the UAE. According to the Banking Law, the UAE Central Bank has the power to license and regulate a wide variety of financial institutions operating in the banking and financial sector in the UAE. In particular, the following institutions are regulated:

1. banks, which are defined to include institutions licensed primarily to carry on the activity of accepting deposits and other licensed financial activities, such as granting loans, issuing and collecting cheques, placing bonds, trading in foreign exchange and precious metals, or carrying on other operations allowed by law or by customary banking practice;
2. exchange houses and money intermediaries (i.e., foreign exchange dealers who purchase and sell currency);
3. Islamic financial institutions; and
4. other financial institutions.

With respect to Islamic financial institutions, permissible activities are not specified in the Banking Law, which provides that the phrase 'Islamic financial institutions' means financial institutions licensed to undertake all the activities of a commercial bank but in accordance with the principles of Islamic sharia. The Banking Law provides that licensed Islamic financial institutions may undertake any of the following activities, provided they are done in a sharia-compliant manner:

1. taking deposits of all types, including sharia-compliant deposits;
2. providing credit facilities of all types;
3. providing funding facilities of all types, including sharia-complaint funding facilities;
4. providing currency exchange and money transfer services;
5. providing monetary intermediating services;

6. providing stored values services, electronic retail payments and digital money services;
7. providing virtual banking services;
8. arranging or marketing licensed financial activities; and
9. acting as a principal in financial products that affect the financial position of a licensed financial institution, including but not limited to foreign exchange, financial derivatives, bonds and *sukuk*, equities, commodities and any other financial products approved by the UAE Central Bank.

The UAE Central Bank has published the CBUAE Rulebook containing laws, regulations, standards, circulars and guidelines issued by the UAE Central Bank in connection with the management and operations of licensed entities (including Islamic banks and *takaful* companies) and sharia supervision guidelines and notices issued by the Higher Authority. The CBUAE Rulebook aims to help the banking industry in achieving regulatory compliance by outlining the regulatory framework currently in place, however, it does not replace or override published laws (including the Banking Law).

Chapter 6 of the Commercial Code has introduced certain requirements in connection with commercial transactions and contracts to which Islamic financial institutions are a party. Article 468(2) of the Commercial Code defined an 'Islamic financial institution' as any institution whose articles of association or articles of incorporation stipulate that it conducts its business and activities in accordance with the provisions of Islamic sharia. It also includes financial institutions that carry out some of their activities in accordance with the provisions of Islamic sharia, with a licence from the competent entities with regard to the sharia-compliant activities. Chapter 6 of the Commercial Code applies to commercial transactions and contracts concluded in accordance with the provisions of Islamic sharia.-[5] Article 471 of the Commercial Code empowers the board of directors of the UAE Central Bank to issue the rules and regulations that include controls and rules for commercial transactions of Islamic financial institutions and *takaful* companies that carry out all or part of their work and activities in accordance with the provisions of Islamic sharia, and which are licensed by it, after their approval by the Higher Authority.[6]

While the Higher Authority was established under the Banking Law, the concept of a higher sharia authority was first contemplated under Article 5 of UAE Federal Law No. 6 of 1985 concerning Islamic Banks, Financial Establishments and Investment Companies, which provided that this authority should incorporate:

> legal and banking personnel to undertake higher supervision over Islamic banks, financial institutions and investment companies to ensure legitimacy of their transactions according to the provisions of Islamic shariah law, and also to offer opinion on matters that these agencies may come across while conducting their activities. The opinion of the said higher sharia authority shall be binding on the said agencies.

In 2017, the UAE cabinet approved the formation of the board of the higher sharia authority to strengthen consistency in the Islamic finance industry across the UAE. At its first meeting, the board identified a number of core objectives for the higher sharia authority, in particular:

1. issuing *fatwa*s (opinions) and ensuring the legitimacy of the products, services and activities of institutions providing Islamic services;
2. introducing and approving new and existing sharia standards and uniform documents detailing best practices for global Islamic financial services;
3. notifying the UAE Central Bank of sharia matters concerning preventive systems for global Islamic financial services, as well as sharia-compliant instruments and ways to develop these;
4. conducting sharia research regarding Islamic financing and ways of supporting it; and
5. communicating and cooperating with other international organisations that currently set sharia regulations and standards for the Islamic financial industry.

The Banking Law formalised the establishment, and mandate, of the Higher Authority. The Higher Authority consists of at least five members (but not more than seven) with sufficient knowledge and experience in sharia and Islamic financial transactions. The Higher Authority will, among other things, determine the rules, standards and general principles applicable to Islamic financial institutions and will undertake supervision and oversight of the sharia committees (see below). A *fatwa* issued by the Higher Authority shall be binding on both sharia committees and all Islamic financial institutions undertaking part or all of their business in accordance with the principles of sharia. In recent years the Higher Authority has continued to promote and enhance governance and standardisation of sharia requirements and alignment of practices of Islamic financial institutions with international standards. The Higher Authority's work continues to be focused on:

1. compliance with the internationally recognised Sharia’ah Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), with the adoption of a new standard on the sale of debt and the initiation of a new generation of standards regarding *murabahah*;
2. the issuance of updated guidance for new sharia-compliant product application processes; and
3. strengthening the sharia governance of Islamic financial institutions.

The Higher Authority continues to publish guidance principles on key legal and regulatory developments. In 2023, the Higher Authority issued guiding principles on the application of sustainability within Islamic financial institutions, which underline the responsibility for action on environmental and social matters within the requirements and the responsibilities assigned to ownership of property rights. The Higher Authority advised Islamic financial institutions in the UAE that achieving sustainability goals is not only recommended by sharia; it may be a matter of obligation. Therefore, the Higher Authority stated that preventing environmental and social issues is not only recommended, but doing otherwise is highly discouraged or forbidden (*makruh* or *haram*).

In conducting its work, the Higher Authority collaborates closely with the UAE market participants.

Each Islamic financial institution must appoint and maintain a sharia committee, called the internal sharia supervision committee (the sharia committee); these sharia committees mirror the activities of sharia supervisory boards (SSBs) under the earlier banking regime, consisting of experienced experts in Islamic finance jurisprudence. Currently, the sharia committee shall undertake internal sharia supervision of all business, products, services and the business conduct of an Islamic financial institution to ensure that its operations and products comply with the rules and principles of sharia, as set by the Higher Authority. Once a product has been finalised between the business development team and the sharia committee, the Islamic financial institution will make an application to the Higher Authority to approve the product. Once a financial product has received the approval of the Higher Authority, it can be offered by the Islamic financial institution to the public in the UAE.

Capital markets

While the UAE Central Bank is the principal financial services regulator for banks and financial institutions in the UAE, these entities are also subject to additional registration and licensing requirements at the federal and emirate levels. The Emirates Securities and Commodities Authority (ESCA) is the regulator in relation to listed securities (including *sukuk*). As with other jurisdictions in the GCC, the laws and regulation relating to the provision of financial products on the local capital markets are supplemented to a large extent by the regulatory regime implemented on the individual exchanges. In the UAE, while the regulators will provide the broad requirements for issuing securities, it is the individual regulators of the exchanges (such as in the Abu Dhabi Stock Exchange and the Dubai Financial Market) that will provide the detailed framework for the listing of the relevant financial products on these exchanges. A detailed review of the rules and regulations of the individual stock exchanges in the UAE as well as in the DIFC and ADGM are beyond the scope of this chapter.

Decision No. 16 of the ESCA Board of Directors of 2014 Concerning the Regulation of Sukuk as amended (the *Sukuk* Regulations) provides specific guidelines for the issuance of *sukuk* in the UAE and the listing of *sukuk* on the local capital markets. Under the *Sukuk* Regulations issuance, listing and offering of *sukuk* must be according to a *sukuk* issuance programme approved by ESCA. *Sukuk* may be issued in a variety of forms including the following:

1. all retail *sukuk* (i.e., *sukuk* where the maximum value of each *sukuk* certificate is 100,000 UAE dirhams) shall only be issued to the public in the UAE through public subscription and shall be listed on a local market;
2. the obligor *sukuk* (i.e., a company or entity that will receive the funds resulting from the issuance of the *sukuk* certificates by the issuer, in exchange for the transfer of assets to the issuer) must obtain ESCA's approval before issuing or listing *sukuk* on a regulated market;
3. institutional *sukuk* (i.e., where the minimum value of each *sakk* is 500,000 UAE dirhams or its equivalent in foreign currency and not offered through a public subscription);

4. convertible *sukuk* (i.e., which is convertible to or exchangeable for shares in the obligor's capital or any other company in accordance with the offering prospectus);
5. for a first *sukuk* listing, the obligor must ensure approval by its SSB. If the obligor does not have an SSB, the *sukuk* must be approved by a sharia committee approved by ESCA;
6. unless ESCA provides otherwise, the nominal value of listed *sukuk* must be above 10 million UAE dirhams or its equivalent in any foreign currency accepted by ESCA and the relevant capital market;
7. the issuer must appoint a UAE licensed bank to act as the paying agent in the UAE;
8. the obligor must provide a prospectus (prepared in accordance with the guidelines in the *Sukuk* Regulations) for a primary *sukuk* listing;
9. the obligor must comply with detailed continuing obligations in connection with listed *sukuk*, including notifying ESCA and the relevant market of any information that may be expected to materially affect market activity, the price of the listed *sukuk*, or the ability of the obligor or issuer to meet its commitments under the *sukuk*; and
10. ESCA shall respond to any application for *sukuk* listing within five business days. If no response is received in this time frame, the application shall be considered rejected. ESCA shall have the right to attach any conditions to any listing approval that it deems necessary to protect the public interest.

ESCA's Board of Directors Decision No. 20 of 2018 Concerning the Offering or Issuance of Islamic Securities (the Offering Regulations) also imposes various obligations on to the issuance or offering of any sharia-compliant securities in the UAE (including by foreign entities) or outside the UAE by UAE-based issuers. In particular, the Offering Regulations set out the minimum information that an issuer wishing to offer or issue an Islamic security inside or outside the UAE (as well as a foreign issuer wishing to offer an Islamic security in the UAE) will have to incorporate in the offering document or prospectus and the information that must be disclosed to ESCA and the market in connection with such an issuance or offering.

Resolution of the Chairman of the ESCA Board of Directors No. 22 of 2024 Concerning Regulation of the Private Offering of Debt Securities Sukuk and Securitized Financial Instruments provides additional requirements for, amongst other things, a private offering and issuance of a *sukuk*, including the initial and final approvals from ESCA; approval by special resolutions at the general assembly in accordance with the Companies Law; a report from an independent financial adviser approved by ESCA, including a statement outlining the benefits of issuing the *sukuk* over other type of financing, and its impact on the shareholders' rights and evidence of the appointment of a local bank in the UAE to act as a payment agent in the UAE; and evidence of sharia compliance by the relevant SSC. *Sukuk* offered for private placement may also be listed and traded in the capital markets provided that: (1) trading is limited to professional investors; (2) trading is through a special platform designated by the market for this purpose; and (3) it is listed with ESCA in accordance with the relevant ESCA resolution for listing.

Takaful insurance

The growth in *takaful* is far outstripping that of conventional insurance. There are currently 10 national *takaful* insurance companies in the UAE. In the wider Middle East, the *takaful* market segment is showing modest growth, largely as a result of the continued demand for insurance products relating to ongoing infrastructure projects in the region.

Under the Insurance Law, the UAE Insurance Authority (Insurance Authority) was appointed as the regulator for the insurance industry in the UAE (outside the free zones), including *takaful* insurance, and was tasked with promoting the role of the insurance industry to indemnify persons, property and liabilities against risks to ultimately protect the national economy; to accumulate and grow national savings and invest them to support economic development in the UAE; to encourage fair and effective competition; to provide the best insurance services with appropriate coverage at affordable rates; and to achieve job emiratisation (i.e., job creation for UAE citizens) in the UAE insurance market.

In October 2020, the UAE government issued UAE Federal Law No. 25 of 2020 confirming that the Insurance Authority was to merge with the UAE Central Bank. According to Sheikh Mohammed bin Rashid Al-Maktoum, Ruler of Dubai, the merger will increase the insurance sector's efficiency and will increase the efficiency and competitiveness of its local financial markets, giving them greater flexibility in their business. The principal objectives of the UAE Central Bank, as outlined in Article 4 of the Banking Law, have been amended to include, among other things:

1. a suitable environment to develop and improve the role of the insurance industry in securing persons and properties against any risk, to protect the national economy, to encourage fair and effective competition and to provide the best insurance services, with competitive prices and coverage, in addition to emiratisation in the insurance market;
2. to regulate, develop and supervise the insurance sector and its activities, and suggest and implement regulating legislation in this regard; and
3. to enhance the performance and competence of insurance companies and request that they abide by the practice rules of the profession and its ethics in order to increase their ability to provide better services for customers and achieve effective competitiveness.

The UAE Central Bank has been the regulator of onshore insurance companies in the UAE since 2 January 2021, and all powers of the Insurance Authority under the old insurance law[7] were transferred to the UAE Central Bank. In addition to the UAE Central Bank, however, there are separate regulators with oversight for the health sector in some of the individual Emirates, including the Dubai Health Authority, the Sharjah Health Authority and the Health Authority Abu Dhabi.

The Insurance Law[8] came into effect on 30 November 2023, repealing the old insurance law. The main purpose of the Insurance Law appears to be the codification of the transfer of insurance regulation from the Insurance Authority to the UAE Central Bank and the broader changes to the UAE legislation in respect of commercial companies and insolvency. In particular, Article 114 provides that the decisions and circulars issued pursuant to the provisions of the old insurance law shall remain in force unless they contradict with the Insurance Law or are superseded by decisions and circulars issued by the UAE Central

Bank. All persons subject to the provisions of the Insurance Law had until 29 May 2024 to comply with its provisions. The Insurance Law defines *takaful* insurance as:

> A collective contractual scheme intended to achieve solidarity and cooperation among a group of contributors to address certain risks, where each one pays an amount of money called 'contribution' to be deposited in a Takaful insurance fund through which compensation is to be paid to eligible persons when a risk is sustained.[9]

The Insurance Law, amongst other things, outlines licensing requirements, corporate governance, prudential requirements, supervision and enforcement powers of the Central Bank, a new mechanism for dispute resolutions in respect of insurance claims and reaffirms the role of the UAE Central Bank as the primary regulator for the insurance industry in the UAE (outside the free zones), including *takaful* insurance. It is tasked with promoting the role of the insurance industry to indemnify persons, property and liabilities against risks to ultimately protect the national economy; to accumulate and grow national savings and invest them to support economic development in the UAE; to encourage fair and effective competition; to provide the best insurance services with appropriate coverage at affordable rates; and to achieve job emiratisation (i.e., job creation for UAE citizens) in the UAE insurance market. The UAE Central Bank issued the standards for sharia governance for *takaful* insurance companies in 2023. These set out how *takaful* insurance companies must be run in compliance with the principles of Islamic finance.

Takaful insurance companies are required to comply with the provisions of the Insurance Law, and the *Takaful* Regulations and the standards for sharia governance for *takaful* insurance companies must be read in conjunction with the Insurance Law. The *Takaful* Regulations requirements are as follows.

1. All insurance and investment transactions by a *takaful* insurance company must be compliant with the provisions of sharia, including the formation of an internal sharia supervisory committee (SSC), which will set and monitor compliance with the basic sharia principles of the company, review and approve all transactions and activities, issue *fatwas*, resolutions and guidance to the company (as necessary) and under any other responsibilities as directed by the Higher Authority. Companies subject to the *Takaful* Regulations must also bear the expenses of the Higher Authority, including remunerations, allowances and expenses of its members, and the mechanism of funding its establishment and continuity of its functioning, as determined by the board of directors of the Central Bank
2. Risk management operations and investment business shall be conducted by a company on *wakalah* or *wakalah* and *mudarabah* together, provided that this is approved by the Higher Authority.
3. Family *takaful* insurance and general insurance may not be combined in one *takaful* insurance company. The existing *takaful* insurance companies currently engaged in both types were given a specific deadline to adjust their positions.
4. The insurance company is committed to provide a *qard hasan* to the participants' fund in the event of a deficit in the assets of this fund.
5. The maximum amount of *qard hasan* is the sum of the shareholders' equity.

6. The amount of *wakalah* fees and how it is calculated, as well as the *takaful* insurance company's share of *mudarabah*, must be stated in advance.
7. An SSB must be formed in each *takaful* insurance company.
8. It is necessary to appoint a sharia controller within each *takaful* insurance company.

The Insurance Authority's Board of Directors' Decision No. 26 of 2014 Pertinent to Financial Regulations for Takaful Insurance Companies (2014 Regulations), which was largely inspired by the EU's Solvency II standards, outlined various financial standards required for *takaful* insurance companies, including the following:

1. the introduction of solvency margins and a guarantee fund. The previous minimum capital requirements (MCR) of 100 million and 250 million dirhams, required for insurers and reinsurers respectively, have been supplemented with the following capital requirements:

- a minimum guarantee fund (MGF) comprising an amount that is the higher of not less than one-third of the solvency capital requirement (SCR); or the higher of a minimum amount to be specified by the Insurance Authority for each type of business and a specified percentage of the net earned premium for each type of business; and
- an SCR, which is a risk-based capital calculation that utilises the solvency template published by the Insurance Authority. The SCR introduces, for the first time in the UAE, a risk-based capital component for insurers;

2. the requirement for *takaful* operators to maintain the higher of the MCR, the MGF or the SCR. In practice, it is likely that the MCR will remain the key requirement for much of the *takaful* industry given the relative youth and lack of scale of *takaful* operators in the UAE;
3. the basis for calculating the financial provisions required by *takaful* insurance companies to meet their obligations towards participants and their beneficiaries, including unearned contribution reserves, outstanding loss reserves and unexpired risk reserves (all as defined in the 2014 Regulations);
4. a determination as to the *takaful* operator's assets that meet the accrued insurance policies. The *takaful* operator must develop investment and risk management policies, including strict limitations on each class of asset that may be held by a single counterparty, to address concentration risk. For example, maximum limits set by law include:

- a 30 per cent limit on real estate assets;
- a 30 per cent limit on equities: only one-third of this may be invested in a particular class of assets; and
- a 20 per cent limit on mutual fund investment: only half of this may be invested in a particular asset class;

5. the accounting standards to be adopted by *takaful* operators; and
6. the records and documents to be maintained by *takaful* operators, which shall be made available to the Insurance Authority upon request.

While the above developments will enhance consumer protection, they will also cause some hardship for *takaful* operators, particularly for the smaller operators who may find it difficult to meet the extensive reporting requirements and limitations on the types of assets in which they may invest. We note that these requirements have encouraged smaller *takaful* operators to merge and consolidate their business to manage the new solvency and reporting requirements.

Investment funds

The vast majority of funds (including Islamic investment funds) marketed in the UAE (whether to retail customers, high net worth individuals or institutional investors) are organised offshore, and the number of onshore funds is extremely low.

There are no laws in the UAE that deal specifically with Islamic investment funds. Therefore, the legal and regulatory regime applicable to investments in general will also apply to Islamic investment funds.

The principal financial services regulator in the UAE is the UAE Central Bank.

Important UAE legislation applicable to investment funds includes:

1. the Banking Law;
2. UAE Central Bank Resolution 164/A/94 (regarding the regulation of financial companies and banking, and financial and investment consultation establishments or companies);
3. UAE Central Bank Resolution 89/3/2000 (regarding the amendment to the regulation of investment companies and banking and financial investment consultation establishment of companies);
4. UAE Central Bank Resolution 58/3/96 (regarding the regulation of finance companies);
5. UAE Central Bank Resolution 21/2/88 (regarding the system of investment banks in the state);
6. ESCA Resolution 3 of 2000 (concerning regulations on disclosure and transparency);
7. ESCA Resolution 4 of 2000 (concerning the securities and commodities authority and market of the Emirates);
8. ESCA Resolution 48 of 2008 (concerning financial advice and analysis);
9. ESCA Board of Directors Decision No. 9 of 2016 (concerning the regulation of mutual funds) (Investment Funds Regulation); and
10. ESCA Chairman Decision No. 13 of 2021 (on the rules handbook of financial activities and mechanisms of status regularisation).

The Investment Funds Regulation further confirmed the transfer from the UAE Central Bank to ESCA of responsibility for the licensing and marketing of mutual funds (including any Islamic investment funds), which are defined as financial pools engaged in the activity of accumulating investors' assets for the purpose of investment against the issue of fund units of equal value, and a number of related activities. ESCA approval is required for the sale, marketing and promotion of foreign securities and funds in the UAE and the establishment of domestic funds. In particular, the Investment Funds Regulation provides that:

1. all foreign mutual funds (which are the most common type of investment fund in the UAE) must be approved by ESCA to be marketed in the UAE. The fact that a foreign fund may only be offered to institutional investors does not provide an exemption from the requirement to obtain ESCA approval;
2. a foreign mutual fund may not be marketed to the public in the UAE unless the foreign fund is subject to the supervision of an authority equivalent to ESCA in its jurisdiction of incorporation and is authorised to make offers to the public in its jurisdiction of incorporation; and
3. all approved foreign mutual funds, whether public or private, must be promoted by a local promoter, which includes banks and investment companies licensed by the UAE Central Bank and companies licensed to be local promoters by ESCA. The local promoter will act as an intermediary between the foreign fund and the persons to whom units in the fund are promoted in the UAE. The local promoter will also be responsible for a broad range of issues, including:

- continuous monitoring of the operations of funds to safeguard the investments of unitholders;
- keeping records of the units distributed by the fund;
- providing subscribers with copies of the foreign fund's offering document;
- ensuring timely disclosure of material information and financial statements relating to the foreign fund to investors in the UAE; and
- distributing dividends and redemption proceeds to the unitholders in accordance with the foreign fund's documents.

An entity establishing a local fund must be a UAE joint-stock company or a UAE branch of a foreign company. The company or branch must have a minimum capital of 5 million UAE dirhams.

The investment policy of the investment fund must specify, among other things, proposed investment instruments, investment risks relevant to the proposed investment instruments, restrictions on types of investments and borrowing controls. The Investment Funds Regulation also prescribes certain restrictions on investment of the fund's assets, in line with the investment nature of the fund, covering:

1. investment in tradable securities (stocks, bonds and cash instruments) or high liquid non-tradable securities;
2. financial derivatives on tradable securities to control the level of risk set out in the fund's prospectus or for hedging in an amount not greater than the total net asset value and subject to disclosure;
3.

declared indexes or bank deposits to ensure liquidity with a maximum maturity of 12 months with licensed banks;

4. open-ended mutual funds, subject to determining the investment ratio (such funds must be licensed by an entity similar to ESCA); and
5. immovable assets of high liquidity.

Any application for a licence from ESCA for either the establishment of a fund or the establishment of a local promoter company requires the submission of a letter of application, various constitutional documents from the applicant and a business plan of some sort. The exact documents are not prescribed by the relevant authority; rather, the normal practice is for ESCA to notify the applicant of such additional documents as it might require on an ad hoc basis. ESCA requires an applicant seeking approval for promotion of a foreign mutual fund to submit the fund's key information, an undertaking from the local promoter, a signed promotion agreement, the fund offering document and the constitutional documents, and the applicant's previous two years' audited financial statements (although additional documents may be requested).

Regulatory and supervisory authorities

While the authorities identified above have the power to regulate the provision of financial services in and from the UAE, in practice, day-to-day sharia supervision and compliance is still left to individual Islamic financial institutions. Over the past couple of years, the decisions and regulations issued by the Higher Authority have become the dominant authority in the regulatory regime governing Islamic financial institutions.

Previously, adherence to the voluntary standards issued by standard setting bodies such as the AAOIFI and the Islamic Financial Services Board varied among individual Islamic banks and financial institutions in the UAE. However, this has changed following the recommendation by the Higher Authority that all banks and financial institutions offering sharia-compliant products in the UAE comply with the requirements of the AAOIFI's standards with effect from 1 September 2018. While Islamic financial institutions in the UAE are required to submit applications for the approval of financial products, they continue to seek guidance from their internal sharia committee on specific transactions. This can be problematic when arranging syndicates of Islamic banks or financial institutions, as there may be differences of opinion between the different sharia committees on the application of sharia principles to the financing structure.

In determining whether an Islamic financial instrument is sharia-compliant, the sharia scholars generally adhere to the following process:

1. review the product concept description created by the product development team;
2. review the market conditions identified by the product development team;
3. review the product development team's views on the Islamic principles on which the transactions will be based; and
4. consider the product development team's proposals and issue a *fatwa*.

Currently, the scholars' resulting *fatwa* is then reviewed by the product development team, and this can be followed by a discussion between the scholars and the product development team to finalise a product. The need for a constant dialogue between the product development team and the scholars throughout this process should be stressed. Once a product has been finalised between the business development team and the sharia committee, the Islamic financial institution will make an application to the Higher Authority to approve the product. The Higher Authority has the power to reject, approve or request further amendments to the product (as a condition for approval). The establishment of the Higher Authority has resulted in the UAE becoming the latest country to adopt a near-centralised sharia compliance regime, like those in place in other jurisdictions such as Malaysia and Sudan, where sharia compliance is centralised within the central bank.

Originally pioneered by the Malaysian Central Bank (Bank Negara Malaysia), other central banks (e.g., in Oman, Nigeria and Pakistan) have established a centralised SSB within their central bank or financial regulator. The central SSB is responsible for the approval of all sharia-compliant financial transaction structures in the country. The responsibility of the SSBs of the individual financial institutions is to ensure the transactions undertaken by institutions are compliant with these rules. Any amendments requested by individual institutions will have to be presented to the central SSB for ratification. The centralised SSB and Bank Negara Malaysia maintain a register of approved scholars. Scholars cannot be a member of more than one board per type of financial institution. As a result, a scholar could, for example, be a member of the SSB of a retail bank and an investment bank, but not of two retail banks.

Common structures

Consumer finance

Islamic banks provide a comprehensive range of core consumer banking services similar to those offered by their conventional counterparts. In particular:

1. Islamic banks accept deposits into current accounts for safe custody of their funds, as well as convenience and use. A bank may levy a charge for providing this service. These deposits are not subject to any conditions on drawing or depositing. The bank may use these deposits at its own risk and responsibility in respect of profit or loss;
2. savings accounts are operated similarly to current accounts. However, customers may be restricted as to the frequency with which they can withdraw their funds, or may be required to give notice to the bank and observe a notice period prior to the withdrawal. The bank, at its discretion, may reward its customers with a profit-share generated from their deposits at the end of its financial year;
3. Islamic banks open investment accounts into which they accept deposits from customers seeking investment opportunities for their funds using the *mudarabah* contract. Deposits are held for a specified period. While the profits generated by the bank from the investment of the funds are shared between both the bank and the customer, according to a predetermined ratio, any losses must be borne by the customer, unless the loss was attributed to any fault by the bank;

4. Islamic banks are unlikely to give an overdraft facility to their customers as they will not charge interest for such a service. Instead, the bank may give a *qard hasan* to customers in cases of hardship to enable them to meet certain obligations; and
5. to provide trade finance facilities, Islamic banks use either a conventional letter of credit or the *murabahah* contract. In practice, Islamic banks tend to open a letter of credit only for customers who have an equivalent credit balance with the bank and in return for a fee. An Islamic bank is likely to use the *murabahah* contract for trade financing where a customer does not have adequate credit with the bank. As mentioned, under a *murabahah* contract, the bank earns its return from the markup profit.

Home finance

For the acquisition of completed properties an Islamic bank will generally provide funding by using the *murabahah* structure. However, for properties under construction, banks generally use the *istisna'* and forward *ijarah* structure.

For a *murabahah* financing, the bank will acquire title to the asset from a third party and then transfer title to the customer (subject to a mortgage over land or a flat, etc.).

Under an *ijarah* financing, once the asset is completed the title will first pass to the customer and then (following entry into the *ijarah* financing) pass to the bank. Once the lease term is completed, the title should revert to the customer (assuming that the customer has complied with its obligations under the *ijarah*).

Insurance

Participants jointly donate funds (on a basis) to a pool for the purpose of providing mutual indemnity and protection to the participants exposed to defined risks under the *tabarru' takaful* policy. The *takaful* contract is a combination of, on one hand, *tabarru'* (donation) and *dhaman* (indemnity) contracts between the individual insured and the pool of insured (policyholders) as represented by the *takaful* and, on the other hand, agency (*wakalah*) or profit-sharing (*mudarabah*) contracts between the insured and the *takaful* operator.

Project finance

Many investors get together to become shareholders in large financial projects through the mechanism of the *mudarabah*. The Islamic bank's role in these funds is to act as the *mudarib* and to use these funds to finance a large project. This *mudarabah* fund can be utilised by the bank in conducting its business using any of the Islamic contracts, such as *murabahah*, *ijarah*, *salam* or *istisna'*.

Asset finance

Islamic banks finance acquisitions of assets by using the *ijarah* contract and the *ijarah wa iqtina* for longer-term assets. This technique is particularly popular for vessel financing by Islamic banks. The title to the asset will pass from the customer to the bank. The asset will be leased back to the customer for the term of the lease. At the end of the lease period, the title to the asset will revert to the customer.

Investment funds

The Islamic structure used for a fund will depend on the underlying objectives of the fund. Fixed-income funds usually invest in *murabahah* (commonly commodity *murabahah*), *sukuk* and *ijarah*, with the investors investing their funds with *mudarib* using a *mudarabah* or *wakalah* contract (which governs the relationship between the investors and the *mudarib*). The *ijarah* fund structure is favoured as it can generate higher returns.

Taxation

The UAE introduced a framework for corporate tax under UAE Corporate Tax Law and corporate tax became effective from 1 June 2023. Islamic finance business operations will be subject to corporate income tax at 9 per cent for their first tax period commencing after 30 June 2023. Under the current legislation, there is no requirement for withholding or deducting for or on account of UAE taxation in respect of payments of accrued return or principal on investments.

The Constitution of the UAE specifically reserves to the federal government of the UAE the right to raise taxes (such as VAT) on a federal basis for the purposes of funding its budget. It is not clear how or if such taxes will affect Islamic finance agreements or institutions. This will only become clear once the relevant laws are passed.

Insolvency

There is no separate insolvency regime for Islamic finance participants in the UAE.

The Insurance Law provide a specific framework for dealing with distressed or insolvent onshore insurance or reinsurance companies. The UAE Central Bank has the authority to liquidate or restructure the company, and can also oblige the company to liquidate its investments. Furthermore, under the Bankruptcy Law the UAE Central Bank and ESCA have been designated as 'supervisory entities' that will be responsible for implementing the Bankruptcy Law for entities that they supervise (banks and insurance companies would come under the authority of the UAE Central Bank). Given the key role regulated entities (particularly banks and insurance companies) play in the economy, it makes sense that these two bodies will oversee their bankruptcy proceedings for entities that they are regulating, as they usually have the most detailed information on the operations and financial conditions of those entities. As yet neither the UAE Central Bank nor ESCA has issued any detailed guidance on implementation of the Bankruptcy Law.

Banks and Insurance companies established in the Dubai International Financial Centre and Abu Dhabi Global Market are subject to a separate regulatory framework with their own rules on insolvency.

Judicial framework

Courts

Although the UAE has sharia courts, these courts only deal with family law-related issues, including marriage, divorce and intestacy. Any commercial disputes in the UAE (including Islamic finance disputes) are resolved through litigation in the UAE civil courts or arbitration. Consequently, should a commercial dispute be brought before a UAE court, the court is unlikely to apply a different treatment to the dispute solely on account of the transaction being sharia-compliant. The dispute will be subject to the same processes and procedures as a conventional financing counterpart. The courts will also apply the laws of the UAE in determining a case. Furthermore, if a document purports to be governed by sharia law, courts will likely disregard this choice of law and will instead apply the applicable UAE laws.

The UAE is a federation of seven emirates. All member emirates, except Dubai and Ras al-Khaimah, are part of a federal judicial system; Dubai and Ras al-Khaimah have independent judicial systems. In every emirate, the court system consists of a court of first instance, a court of appeal and a court of cassation (Ras al-Khaimah, however, does not have a court of cassation).

Commercial disputes in the UAE (including Islamic finance disputes) are generally resolved through litigation in the UAE civil courts or arbitration. It is common for UAE banks and financial institutions to choose UAE law (or the law of a particular emirate) as the governing law of the transaction documents and the UAE courts as having exclusive jurisdiction over all related disputes.

The UAE operates under a civil law system. The civil court (or court of first instance) hears all claims ranging from commercial matters (including debt recovery cases) to maritime disputes. After judgment has been delivered, the parties have the right to appeal to a civil court of appeal on factual or legal grounds, or both, within 30 days of the date of judgment. It is possible to introduce additional evidence to the court of appeal and request that additional witnesses be called to testify. Thereafter, parties may appeal on points of law alone to the court of cassation (the highest court in Dubai), which is usually composed of five judges. An appeal must be filed within 30 days of the date the parties were notified of a judgment of the court of appeal. All decisions of the court of cassation are final and are not subject to appeal.

Each case is decided on its own merits and facts. All court proceedings are in Arabic. All non-Arabic documents filed in court by the litigants must be translated into Arabic by a translator licensed by the Ministry of Justice. The judicial system in the UAE is essentially inquisitorial in nature. In each case, the judge will investigate the facts and apply the law to the facts in reaching his or her judgment. There is no concept of a jury trial.

All proceedings in UAE civil matters are based on the written pleadings of the parties, supported by documentary evidence. In general, there is no oral hearing in civil cases. There is a widespread practice for both the federal and Dubai courts to refer matters to court-appointed experts for findings of fact in a variety of areas, including finance, accounting and other technical matters. Experts' reports (including reports from sharia scholars) are not binding and can be challenged by the parties, but they are usually considered persuasive by the courts. Oral evidence can only be given to establish a fact in a civil case with the permission of the court, and the right to cross-examine witnesses is severely restricted.

The UAE courts do not adhere to the traditional common law standards of proof such as the balance of probability test in civil claims or the beyond all reasonable doubt test in criminal matters. The final decision in any case is at the discretion of the judge or judges hearing the case.

All commercial cases are heard by the civil courts, usually consisting of three judges in the court of first instance, three judges in the court of appeal and five judges in the court of cassation. These judges may not have specialist knowledge of commercial matters. However, commercial disputes must first be referred to a reconciliation and settlement committee (committee) appointed by the Ministry of Justice under the Reconciliation Committee Law.[10] The committee facilitates settlement and usually hears parties in person. If a claim cannot be settled, the claimant can file a claim in the court of first instance. If the parties reach a settlement, they record and sign its terms. This agreement is binding and enforceable. This procedure does not apply in Dubai or Ras al-Khaimah. Dubai recently passed a law creating the Centre for Amicable Settlement of Disputes, to which certain cases must be referred before initiating court action.[11]

To maintain the legal enforceability of an agreement, it is advisable for all the elements necessary for shariah-compliance purposes to be incorporated into the agreement itself. Under the UAE Civil Code, where the intention of the parties is clear from the language of the contract, the courts will not imply any further meaning or additional terms to the contrary. Save in cases where a contract was unclear and the provisions of the law and customary practice are silent on an issue, the UAE courts are unlikely to examine the sharia aspects of a document.

In addition to the civil courts, the parties may choose to resolve a dispute through the International Islamic Centre for Reconciliation and Commercial Arbitration (IICRCA). The IICRCA is a dispute resolution forum for the Islamic finance industry based in Dubai. The IICRCA was established for the purpose of assisting in resolving financial and commercial disputes that may arise between financial and commercial institutions or between such institutions and their clients or third parties through reconciliation or arbitration in accordance with the principles and rules of the Islamic sharia. The IICRCA handles commercial disputes in the Islamic financial industry from across the GCC as well as Malaysia. The agreement of the parties is required for the IICRCA to have jurisdiction. The IICRCA is not commonly used.

There are other regional arbitration centres, in Sharjah and Ras al-Khaimah, such as the Sharjah International Commercial Arbitration Centre and the Ras al-Khaimah Centre of Reconciliation and Commercial Arbitration. These arbitration centres are not commonly used.

Cases

The Dubai Cassation Court issued a key ruling on 8 July 2025 in Case No. 595/2025 regarding the legality and enforceability of late payment interest (including statutory interest applied by the courts) in connection with facilities granted under Islamic finance structures. The case involved a dispute between an Islamic financial institution and its customer in connection with a *murabahah* financing. When the customer failed to make repayments in accordance with the *murabahah* contract, the Islamic financial institution filed a claim with the Dubai courts to recover the outstanding amount along with statutory late payment interest (currently applied at 5 per cent). The Court of First Instance ruled in favour of the Islamic financial institution but rejected the claim for statutory interest on the basis of Article 437(1) of the Commercial Code, which provides as follows:

> It shall not be permissible for Islamic financial institutions to borrow or lend with interest or benefit, in any way, nor to arrange or charge interest or benefit on any amount of debt of which settlement is delayed, including the delayed interest, even as compensation, and any agreement to the contrary shall be null and void.[12]

The Islamic financial institution filed an appeal to the Court of Appeal, which overturned the Court of First Instance's judgement and awarded interest. The customer filed a case with the Dubai Cassation Court arguing that Article 473 clearly prohibits all forms of interest or financial benefit associated with delayed repayment, regardless of whether this interest is contractual or statutory. The Dubai Cassation Court overruled the judgement of the Court of Appeal and reinstated the decision of the Court of First Instance, stating that the prohibition under Article 473 should be interpreted broadly and literally, so as to extend to any interest or financial benefit arising from the delay in repayment under the sharia-compliant financing, regardless of whether it is classified as contractual late payment penalties or statutory interest. The judgement of the Court of Appeal demonstrates the local courts' commitment to enforcing sharia principles to Islamic financing in the UAE. This case represents a lesson for Islamic financial institutions to ensure that the structures and documentation for financial products are thoroughly reviewed to ensure strictly adhere to the principles of sharia, and that in reviewing the products the sharia advisers and their sharia committees adopt a broad application to the principles of sharia and not overly rely on legal classification.

The UAE does not follow the principle of *stare decisis*, and judgments of the UAE courts are not always published.

Special considerations

Taking security in the UAE can be a challenging and time-consuming exercise. This is because: (1) unlike other developed jurisdictions where it is possible to take one security charge over various different types of rights and assets of a borrower/obligor, in the UAE different types of security assets and security (e.g., accounts pledges, assignment of receivables and land mortgages) may be subject to different requirements and need to be documented separately; (2) in addition to onshore UAE there are over 45 free zones in the UAE, each of which may have its own specific requirements for a security interest (e.g., registration), even if the security interest is security over assets of the UAE borrower/obligor that are located outside the UAE; and (3) certain types of security (e.g., share pledges over the shares of an onshore company and some free zone entities/companies) may only be available for local licensed banks. Therefore, foreign lenders may need to appoint a UAE Central Bank-licensed bank in order to act as a local security agent. This can be a challenging and costly exercise, as most of the local banks have limited their security agency services to international (or sometimes just GCC) banks.

In relation to enforcement of security, note that there is no concept of 'self-help' remedies in the UAE, and enforcement of security interest (even in the case of security registered with an onshore or free zone authority) will probably need to be enforced via the local courts. Sometimes even the security document or the free zones' regulations will specifically state that the security interest can only be enforced in the local courts. The local courts are rather unpredictable, and there is no doctrine of case precedent; this can create a degree of uncertainty when enforcing any interest in the local courts. Security interest judgments issued by a foreign court will not be automatically enforced in the local courts (unless there is reciprocity in enforcement of court judgments between the UAE and the foreign jurisdiction – usually evidenced by a formal treaty for the mutual recognition of court judgments between the UAE and the foreign jurisdiction), and instead the dispute will need to be relitigated in the local courts, in which case the local courts will almost certainly apply UAE law, even if the parties have chosen a foreign law to govern the relevant security agreement.

Outlook and conclusions

UAE Central Bank as insurance regulation

The Higher Authority is actively embracing its roles as a central player in the Islamic finance landscape. In 2024 the Higher Authority continued to enhance the standardisation and harmonisation of sharia compliance, and promote sustainability practices in the UAE. In collaboration with other governmental authorities, it addressed several issues related to important products for Islamic financial institutions, including the standardisation and issuance of guidance regarding the sharia aspects of *sukuk*, repo transactions and syndicated deals. Chapter 6 of the Commercial Code has empowered the UAE Central Bank's Board of Directors to issue bylaws and regulations on sharia-compliant contracts and products and services based on the Higher Authority's recommendation to ensure comprehensive coverage of Islamic financial transactions. It remains to be seen, however, what recommendations the Higher Authority makes in the coming years. The Higher Authority continues to assist the UAE Central Bank as the new regulator of insurance companies and is undertaking a detailed review of the regulations concerning *takaful* to ensure compliance with sharia standards.

Cryptocurrencies

The UAE Central Bank is actively driving the development of the UAE's Islamic finance industry to position the UAE as a global hub in Islamic finance, aligned with the UAE Central Bank's Strategy 2023–2026, which sets out the approach for market development, competitiveness and sustainability. In May 2025, the UAE Cabinet approved a strategy for Islamic Finance and Halal Industry, with the aim of developing the Islamic finance sector, lead global Islamic finance activities, and boost the export of *halal* products worldwide.

H.H. Sheikh Mohammed bin Rashid stated that the UAE shall aim to increase assets of UAE Islamic banks to 2.56 trillion UAE dirhams within six years and raise the value of listed Islamic *sukuk* in the UAE to over 660 billion UAE dirhams by 2031. The UAE Cabinet also approved the formation of a committee chaired by the UAE Central Bank governor to implement the strategy. This demonstrates the UAE's continued commitment to support and develop its Islamic finance industry as part of its overall goal to continue to diversify and expand its local economy across all sectors.

The UAE Central Bank, in its role in supporting liquidity management of the banking sector and fostering the development of a reference UAE dirham yield curve through the efficient issuance of Islamic certificates of deposit (ICDs). As at 31 December 2024, the total outstanding amount of ICDS was 42.4 billion dirhams. The UAE Central Bank has also commenced the development of a Sustainable Islamic M-Bills programme. This aims to develop a sharia-compliant and sustainable-equivalent to existing M-Bills, which can be posted as collateral to access the UAE Central Bank's standing and liquidity insurance facilities. It is hoped that sustainable Islamic M-Bills would also support collateralisation among market participants and facilitate parity between conventional licensed financial institutions and those conducting their business in compliance with sharia law. The first phase of the initiative focused on assessing the feasibility and potential size of such a programme. Further developments are expected during the course of 2025.

Cryptocurrencies

While some parts of the Islamic world have raised doubts about the sharia compliance of cryptocurrencies and assets (e.g., Indonesia's National Ulema Council declared cryptocurrencies as *haram* in November 2021 even though the Indonesian government has allowed crypto assets to be traded alongside commodity futures as an investment option and pushed to set up a crypto-focused exchange by the end of 2024), other countries have been quick to adopt and attract crypto assets. Dubai has been quick to recognise the value of the crypto industry and has adopted a pro-crypto approach in a push to establish Dubai as a regional and international destination in the virtual assets sphere and attract entrepreneurs and investors of blockchain technology. To this end, Dubai issued Law No. 4 of 2022 on the Regulation of Virtual Assets and established the Dubai Virtual Assets Regulatory Authority. In the coming years, we expect the UAE Central Bank (which is already considering issuing a digital currency) and the Higher Authority to take an active role in standardising the UAE's approach to sharia compliance of cryptocurrencies and assets.

Endnotes

1 Article 6 of the UAE Constitution. ^ Back to section

2 UAE Federal Law No. 5 of 1985 Concerning Civil Transactions, as amended. ^ Back to section

3 UAE Federal Law No. 50 of 2022 on the Promulgation of the Commercial Transactions Law, as amended. ^ Back to section

4 UAE Federal Law No. 14 of 2018 concerning the Central Bank and Organisation of Financial Institutions and Banking, as amended. ^ Back to section

5 Article 472 of the Commercial Code considers the following as commercial transactions concluded in accordance with the provisions of Islamic sharia when they are conducted by Islamic financial institutions: (1) deposits; (2) investment account; (3) *takaful* insurance; (4) financing formulas; (5) investments; and (6) any transaction stipulated by any applicable legislation to be subject to the provisions of Islamic sharia. ^ Back to section

6 UAE Central Bank Annual Report 2022. ^ Back to section

7 Federal Law No. 6 of 2007 regarding the Establishment of the Insurance Authority and Organisation of its Operations. ^ Back to section

8 UAE Federal Law No. 48 of 2023 regarding the Regulation of Insurance Activities. ^ Back to section

9 Unofficial translation. ^ Back to section

10 Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, including all associated implementing regulations, Ministerial decisions and decrees, as amended. ^ Back to section

11 UAE Federal Decree Law No. 51 of 2023, together with Cabinet Decision No. 94 of 2024 on the Implementing Regulation of the Financial Restructuring and Bankruptcy Law. ^ Back to section

12 Federal Law No. 26 of 1999 regarding establishing reconciliation committees in the Federal Courts. ^ Back to section

Afridi &Angell

Rahat Dar rdar@afridi-angell.com

Afridi & Angell