inBrief

Proposed Amendments to DIFC Funds Framework

By Stuart Walker and Luca Rayes Palacín | 11 August 2026

The Dubai Financial Services Authority (**DFSA**) has issued Consultation Paper 173 (the **Consultation Paper**), proposing a review of its collective investment fund framework. The proposed changes would replace the current private fund classification framework with a more flexible, disclosure-led model accommodating multi-strategy and hybrid funds.

The Consultation Paper will be of particular interest to current fund managers, fund administrators, persons managing assets and custody providers licensed in the Dubai International Financial Centre (**DIFC**), as well as to prospective future applicants.

Some notable proposals are:

- removal of specialist class categorisations for Qualified Investor Funds (**QIFs**) and Exempt Funds;
- closure of the External Fund Manager (**EFM**) route for non-DFSA licensed managers;
- updated credit fund regime;
- expanded definition of what constitutes a "Fund Manager";
- new employee co-investment route; and
- initial consultation on tokenisation and long-term investment funds.

Removal of fixed classifications

Specialist class labels (QIFs or Exempt Funds) presently determine the requirements applicable to a given fund. The DFSA considers this ill-suited to hybrid and multi-strategy mandates. It proposes to remove the specialist class requirements for Exempt Funds constituted as money market or private equity funds, and for Exempt Funds and QIFs constituted as credit funds.

Closure of the External Fund Manager route

Subject to meeting certain criteria, fund managers established outside the DIFC are permitted to manage DIFC-domiciled funds without being licensed by the DFSA. The DFSA proposes to withdraw this route. Managers of DIFC funds would need to establish a DIFC presence, transfer the fund to a locally licensed manager, or restructure. The DFSA has indicated that it will engage with current EFMs on funds in existence. Affected managers may wish to begin that engagement early.

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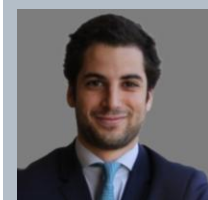
Stuart's primary practice includes employment, financial services regulation, corporate finance and mergers and acquisitions. He leads the field in advising parties during Dubai Financial Services Authority (DFSA) investigations and was instructed by the first authorised firm to be fined by the DFSA. He assists a variety of international clients with their tax planning. Stuart was admitted as a solicitor in England & Wales in 2001 and moved to Dubai in 2003.



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New way of categorising credit funds

The DFSA proposes to remove the requirement that 90 percent of a fund's property be used to provide credit in order for it to be constituted as a credit fund. A fund with a more modest strategy of credit allocation, outside the class today, may therefore be deemed to constitute a credit fund under the proposed framework. The Consultation Paper proposed that the base capital requirement for credit fund managers fall from USD 140,000 to USD 40,000, and that the application and annual renewal fees be removed.

More parties falling under the definition of "Fund Manager"

The current definition of a "Fund Manager" turns on legal accountability to unitholders and contractual obligations to the fund vehicle. The DFSA proposes to amend the Collective Investment Law 2 of 2010 (**CIL**) so that a person falls within the definition even where not legally accountable directly to unitholders. Existing fund managers would remain subject to the statutory duty to act in unitholders' best interests, and the DFSA states that investor protection would not be reduced. The practical effect, however, is that persons who are not directly accountable to unitholders may fall within the definition, and therefore also be subject to the regulatory oversight of the DFSA.

Employee investment in funds

The DFSA proposes to permit employees to invest in private funds managed by their employer. Neither the minimum initial subscription – presently USD 500,000 for a QIF and USD 50,000 for an Exempt Fund – nor the net worth test for 'professional client' classification would apply, provided employees meet certain criteria. The relief is confined to employees of the fund manager, or of a DFSA-licensed firm authorised to conduct the regulated activity of 'Managing Assets', who are directly involved in executing the fund's investment decisions or advising the manager on them. Investment could also be made indirectly through a vehicle established for that purpose, which would not constitute a "fund" for regulatory purposes, and limited to the same staff.

Next steps

The Consultation Paper requests additional feedback on two specific topics: (i) tokenisation and (ii) long-term investment funds. This may be indicative of the nature of future changes to the DIFC's funds framework. Comments to the Consultation Paper have been requested to be sent to the DFSA by 7 September 2026.

Managers and applicants should assess whether their strategies, borrowing arrangements, authorisations and risk management documentation remain workable under the revised perimeter.

Afridi & Angell is well placed to assist fund managers, fund administrators and applicants in assessing the impact of the Consultation Paper, in preparing consultation responses, and in undertaking the licensing and restructuring work that may follow. ■

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