

GIBSON DUNN



Investment Funds Update

July 10, 2026

DFSA Proposes Welcome Reforms to the DIFC Funds Regime

On 7 July 2026, the Dubai Financial Services Authority (DFSA) published Consultation Paper No. 173 (CP 173), proposing a welcome overhaul of the Dubai International Financial Centre (DIFC) collective investment fund framework. The proposals mark the most significant review of the regime since 2010.

CP 173 proposes amendments to the Collective Investment Law No. 2 of 2010 (CIL), the Investment Trust Law No. 5 of 2006, the Regulatory Law 2004 and seven Rulebook modules, including the Collective Investment Rules (CIR). The direction of travel is clear and, for the most part, market-friendly: a shift away from prescriptive, classification-based regulation towards a risk-based, disclosure-led framework for professional investor funds, with core standards applied horizontally across all fund managers.

More detail on these and the other key proposals are set out below. Unless defined in this alert, capitalised terms have the meanings given to them in the DFSA Rules.

Reduced Regulatory Prescription for Professional Investor Funds

The DIFC regime currently sorts funds into fixed specialist classes (including private equity funds, hedge funds, credit funds, property funds, money market funds and others) each carrying its own layer of prescriptive additional requirements. This is in addition to the overarching regulatory classifications of Qualified Investor Fund (QIFs)^[1], Exempt Fund^[2] and Public Fund^[3]. These additional strategy specific requirements are somewhat unusual by reference to global practice

for professional investor funds, and the DFSA's benchmarking has led them to the view that certain of these requirements are unnecessarily onerous in this context. CP 173 therefore proposes to substantially limit the application of the specialist class framework in three key respects:

1. Broadening the scope for Master/Feeder structures by:
 - a. expanding the definition of Master Fund (to include those which may accept direct subscriptions from institutional and professional investors alongside its Feeder Funds), and
 - b. removing two eligibility criteria that have effectively prevented the establishment of public Feeder Funds in the DIFC:
 - i. the requirement that the Master Fund's units be offered regularly by at least three market makers, and
 - ii. the 20% cap on a Feeder Fund's holding of the Master Fund's units.
2. Entirely removing the dedicated money market fund and private equity fund requirements for Exempt Funds.
3. Reducing the specialist class requirements applicable to credit funds that are Exempt Funds or QIFs (see further details below). In particular, draft amendments delete the prohibition on cross-border trade finance, and on lending to the fund manager and its related parties, to other funds and fund managers, and to financial institutions. This opens the door to fund financing strategies in the DIFC, such as NAV lending to other investment funds (noting that lending to a borrower that intends to on-lend remains prohibited).

This is a welcome development that reduces regulatory prescription and alleviates some of the complexity previously associated with the multiple layers of fund classification, at least for professional investor funds.

The rigid specialist classifications also sit poorly with hybrid and multi-strategy investing, and the DFSA is clearly aiming to facilitate the growth of this segment of the funds market. The requirement that 90% of Fund Property be used to Provide Credit for a fund to be constituted as a Credit Fund (accommodating hybrid and multi-strategy deployment) has been removed, paving the way for hybrid debt/equity investing strategies. Correlating to the removal or dilution of specialist class requirements, the elevated base capital requirement, application and annual fees for credit-focused managers will be removed, with the standard rates now applying to such managers.

Strategies Still Drive Certain Regulatory Exemptions and Requirements

However, the notion of specialist classes does remain, in substance. Public Funds will continue to be subject to the specialist class requirements, commensurate with the DFSA's risk based approach and enhanced regulation for potentially retail products. Certain professional investor

funds (e.g., credit funds) will remain subject to specialist requirements (e.g., prohibitions on certain investment activity, additional risk monitoring and reporting requirements).

Certain professional investor funds will continue to have to meet the DFSA's definition of a relevant strategy to avail certain exemptions. For example:

1. a product will have to be a 'venture capital fund' (as defined by the DSFA) in order for the manager to avail the venture capital fund manager (**VCFM**) regime, which entails substantially reduced fees and relief from capital, internal audit, valuation and reporting requirement, and
2. the private equity fund definition continues to drive the permission for a sponsor to invest in its own fund without needing an additional regulatory permission^[4] (CP 173 would extend this to venture capital funds), yet the revised private equity fund definition would capture only a fund that invests in unlisted companies with a view to potentially acquiring control of them. The control limb is new, arguably narrows the existing exemption and sits oddly with market reality. Growth equity and minority investment strategies, for example, involve no intention to acquire control, and would, on this drafting, fall outside the definition. Sponsors may wish to press for its removal or clarification.

Team and Sponsor Investment

The expansion of the abovementioned exemption for sponsor investment into their funds is welcome, but could go further to apply in relation to other strategies, and the rules could clarify that this includes funds domiciled outside the DIFC. Whether the exclusion accommodates customary GP commitments (as opposed to an investment from the regulated fund manager itself) would also benefit from clarification.

In another welcome development for sponsors, employees directly involved in a fund's investment management, whether executing investment decisions or providing investment advice to the fund manager, would be permitted to invest in the private funds their employer manages either directly or through employee investment vehicles.

- Direct employee investment has historically been difficult as these employees may not otherwise meet the minimum subscription amounts or the Professional Client net asset threshold, meaning that their investment in the fund could result in the fund losing its QIF or Exempt Fund status. Those thresholds would be disapplied for employees who meet the experience criteria in the Conduct of Business module^[5], whether employed by the fund manager itself or by a DFSA-Authorised Firm appointed by the fund manager to manage the fund's assets.
- Dedicated employee investment vehicles (if established in the DIFC) have not historically been excluded from the definition of a Collective Investment Fund, which limited the use of the DIFC as a jurisdiction for these structures. This would also be changed, allowing sophisticated managers to offer global standard executive compensation arrangements and structures in and from the DIFC.

Some points for clarification remain: the relief appears limited to employees of the (DFSA-regulated) fund manager or its DFSA-licensed delegate, and it is unclear whether it is broad enough to cover non-DIFC affiliates, which is relevant given the rise of international sponsors establishing a DIFC office, but who may also have investment staff sitting outside the DIFC. We

also expect some market participants to argue in favour of certain senior, but non investment, functions to be eligible for this participation exemption.

CIL Modifications

Various other technical amendments are proposed, most notably that the DFSA be granted power to waive or modify provisions of the CIL itself, mirroring the DFSA's existing power under the Markets Law. This is more consequential than it may appear: it would, for the first time, allow waivers to be sought from requirements hard-wired into the CIL. For example, the current ability of investors to remove a fund manager or terminate a fund on a no-fault basis, which is a provision sponsors routinely negotiate elsewhere but which has to date been beyond the DFSA's reach.

New "Horizontal" Application of Previously Specialist Class Rules

It is important to note that while certain *fund-level* regulations have been reduced or removed, certain requirements previously applicable to specialist classes have now been *reallocated* and will apply to any fund based on its activity, rather than its label.

Managers of QIFs and Exempt Funds, regardless of their investment strategy, will now be required to calculate borrowing limitations in a reasonable and prudent manner and to disclose the expected maximum level of borrowing and the basis of its determination. This is similar to the EU's Alternative Investment Fund Managers Directive (AIFMD) requirement to set and disclose a maximum level of leverage, albeit framed around borrowing rather than leverage more broadly.

The prime brokerage safeguards currently confined to hedge funds would apply to any QIF or Exempt Fund that permits its prime broker to pool, rehypothecate or use fund assets as collateral. Nothing obliges a fund to appoint a prime broker, and in practice this will continue to bite mainly on hedge-style strategies.

The most operationally significant of the new horizontal requirements is that every fund manager must ensure functional separation and independence between fund valuation and asset pricing, on the one hand, and the investment management process, on the other. This previously only applied in respect of a hedge fund, and the shift is an echo of the valuation independence requirement in Article 19 of AIFMD. The accompanying guidance indicates that personnel involved in determining the net asset value should generally not be involved in investment management, and points to delegating NAV calculation to a suitably competent third-party fund administrator as an effective method of segregation. That guidance sits uneasily with practice, as administrators of private funds typically compute the NAV from asset values supplied by the manager rather than valuing the assets themselves, so delegation alone is unlikely to deliver the segregation contemplated. The practical effect, particularly for private equity and venture capital managers whose deal teams drive valuations, is a need for valuation personnel or a valuation committee, independent of the deal team. Managers should assess their valuation governance now and may wish to raise the workability of the guidance in consultation responses.

Abolition of the External Fund Manager Regime

Citing limited supervisory reach over non-DIFC entities and strong demand for full DFSA authorisation, the DFSA proposes to remove the external fund manager (**EFM**) regime, which permitted non-DIFC managers to manage Domestic Funds. In future, such managers would require a presence in the DIFC and appropriate DFSA licensing. DFSA regulated fund managers will remain able to manage funds domiciled outside the DIFC. The particular utility of the EFM regime has, in our experience, been to facilitate cross border structures where a fund complex has need of a DIFC feeder, parallel or alternative investment vehicle. Closing that avenue, particularly in the context of professional investor funds, is understandable in the context of desire for regulatory oversight but may reduce the attractiveness of the DIFC as a centre for cross border financial activity and arrangements.

Licensing Clarity for Delegated Portfolio Managers

CP 173 would clarify that an authorisation for Managing Assets covers Dealing in Investments as Agent and Arranging Deals in Investments, to the extent necessary for the investment management of Fund Property delegated by a fund manager. DIFC investment managers holding those authorisations solely for delegated fund mandates should consider applying to remove them once the changes take effect. The clarification is confined to delegated fund mandates. The drafting, however, appears to confirm that a manager acting for an investor directly under a separately managed account (**SMA**) would continue to require Dealing in Investments as Agent and Arranging Deals in Investments alongside Managing Assets, which exacerbates a regulatory arbitrage that already exists due to the different regulatory treatment of commingled funds and “funds-of-one” (e.g., the inability of the latter to avail private credit fund status). Given the rise in bespoke investment structuring solutions, particularly prevalent for the sovereign investor base in this region, arbitrage between fund mandates and single investor mandates should be reviewed to avoid misaligned incentives, and to reduce complexity.

On the Horizon: Tokenisation and Retail LTIFs

Part II of CP 173 invites early feedback on two possible future workstreams: (i) enhancements to the tokenisation framework, including whether the CIR unit registration rules accommodate fully digital registers, the use of tokenised money market funds as collateral in non-centrally cleared derivative transactions, and the holding of Crypto Tokens for fund operational purposes; and (ii) a potential long-term investment fund regime for retail investors, drawing on the EU ELTIF and UK LTAF models, with questions posed on investor access, redemption mechanics and investor awareness.

Next Steps

Firms holding waivers or modifications of Rules proposed to be amended or deleted should assess the impact and engage with the DFSA's supervision team where necessary. The consultation paper and draft legislative instruments are available [here](#).

Comments on CP 173 are due by 7 September 2026 via the DFSA's online response form, and a general transition period of three months is proposed for the changes once made.

[1] \$500k initial subscription, Professional Client only, private placement.

[2] \$50k initial subscription, Professional Client only, private placement.

[3] Open to Retain Clients and/or marketing by general solicitation.

[4] Namely, Dealing in Investments as Principal – GEN 2.7.5.

[5] either: (i) the individual is, or has been, in the previous two years, an Employee in a relevant professional position of a DFSA regulated firm or a Regulated Financial Institution; or (ii) the individual appears, on reasonable grounds, to have sufficient experience and understanding of relevant financial markets, products or transactions and any associated risks, following the analysis set out in Rule 2.4.3 of the Conduct of Business module.

The following Gibson Dunn lawyers prepared this update: Carolyn Abram and Ryan Nash.

Gibson Dunn's lawyers are available to assist with any questions you may have regarding these developments. Please contact the Gibson Dunn lawyer with whom you usually work, any member of the firm's Investment Funds practice group, or the authors:

Carolyn Abram – Dubai (+971 4 318 4647, cabram@gibsondunn.com)

Ryan Nash – Dubai (+971 4 318 4667, rnash@gibsondunn.com)

Attorney Advertising: These materials were prepared for general informational purposes only based on information available at the time of publication and are not intended as, do not constitute, and should not be relied upon as, legal advice or a legal opinion on any specific facts or circumstances. Gibson Dunn (and its affiliates, attorneys, and employees) shall not have any liability in connection with any use of these materials. The sharing of these materials does not establish an attorney-client relationship with the recipient and should not be relied upon as an alternative for advice from qualified counsel. Please note that facts and circumstances may vary, and prior results do not guarantee a similar outcome.

If you would prefer NOT to receive future emailings such as this from the firm, please reply to this email with "Unsubscribe" in the subject line.

If you would prefer to be removed from ALL of our email lists, please reply to this email with "Unsubscribe All" in the subject line. Thank you.

© 2026 Gibson, Dunn & Crutcher LLP. All rights reserved. For contact and other information, please visit our [website](#).