Dubai Financial Services Authority

CONSULTATION PAPER NO. 173

PROPOSALS TO ENHANCE THE DFSA'S COLLECTIVE INVESTMENT FUND FRAMEWORK

07 July 2026

PREFACE

Why are we issuing this Consultation Paper (CP)?

1. The first part of this CP seeks public comments on proposals to amend the DFSA's regime for Collective Investment Funds. The second part invites initial feedback on discrete areas, for policy development, that the DFSA may consider at a later stage.

Who should read this CP?

2. The proposals in this CP should be of interest, in particular, to:

   a) Fund Managers;

   b) Fund Administrators;

   c) Persons Managing Assets;

   d) Custody providers;

   e) Persons who intend to apply to the DFSA for a Licence to carry out the activities specified above; and

   f) Persons providing legal, accounting, audit, or compliance services to any of the above.

Terminology

3. In this CP, defined terms have the initial letter of a word, or of each word in a phrase, capitalised and are defined in the Glossary module (GLO). Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning.

What are the next steps?

4. Please provide your comments online by accessing this online response form by 7 September 2026. You will need to identify yourself and the organisation you represent (if applicable) in providing your comments. We may publish, including on our website, any comments you provide, unless you expressly request otherwise at the time of making comments.

5. Following the consultation, we will consider which changes to the proposed framework are necessary and amend the proposed draft legislation as appropriate. We will then proceed to submit the proposed changes to the Collective Investment Law No. 2 of 2010 (CIL), the Investment Trust Law No. 5 of 2006 and the Regulatory Law 2004 (Regulatory Law) to His Highness the

President of the DIFC for his consent that the changes should be submitted, for assent, to His Highness the Ruler of Dubai.

6. In parallel, we will proceed to make the relevant amendments to the Rulebook modules.

7. You should not act on these proposals until the relevant legislative changes are finalised. We will issue a notice on our website informing the public when all the relevant law and Rulebook changes have been made.

Structure of this CP

8. The CP is divided into the following parts, and contains the following:

Background information

Part I: Items for consultation

- Section A: Specialist classes of Domestic Funds;
- Section B: Financial Services activity of Managing Assets;
- Section C: Fund structures;
- Section D: External Fund Managers;
- Section E: Employee investment in Funds;
- Section F: Accounting period for first annual report;
- Section G: Changes to CIL and related Rulebook amendments; and
- Section H: Transition period.

Part II: Items for discussion

- Section A: Tokenisation; and
- Section B: Long-term investment Funds.

Appendices

- Appendix 1: Draft amendments to CIL;
- Appendix 2: Draft amendments to the Regulatory Law;
- Appendix 3: Draft amendments to the Investment Trust Law;
- Appendix 4: Draft amendments to CIR;
- Appendix 5: Draft amendments to GEN;
- Appendix 6: Draft amendments to GLO;
- Appendix 7: Draft amendments to PIB;
- Appendix 8: Draft amendments to FER;
- Appendix 9: Draft amendments to IFR;
- Appendix 10: Draft amendments to MKT; and
- Appendix 11: Correlation table of CIR to assist readers in navigating the proposed changes.

Background information:

Proposals to enhance the DFSA's collective investment fund framework

9. The DFSA's Funds regime was established in 2006 and has not been comprehensively reviewed since 2010. In recent years, the Funds and asset management industry in the DIFC has evolved significantly, alongside developments in international standards and regulatory best practices.

10. In response, the DFSA has undertaken an extensive review of the regime with the overall objective of enhancing the framework, and more particularly:

    (i) aligning the framework more closely with international standards and regulatory best practices; and

    (ii) streamlining the regime to improve clarity and reduce unnecessary regulatory burden.

11. The review has been informed by supervisory experience and market engagement and seeks to support the continued development of the DIFC as an internationally respected and robust financial centre. In doing so, the proposals are intended to maintain, and where appropriate strengthen, investor protection through a proportionate and risk-based regulatory approach.

12. This CP sets out the resulting proposals on which we would welcome your feedback (Part I). This includes proposals on specialist classes of Qualified Investor Funds (QIF) and Exempt Funds, proposals applicable to Fund Managers of all types of Funds[1], as well as technical amendments to the CIL and CIR.

13. Some of the proposed changes involve redrafting and restructuring parts of the regime, including the CIL and CIR, without altering the underlying policy intent. The Rule instruments are accompanied by a correlation table of CIR (Appendix 11) to assist readers in navigating the proposed changes.

14. The proposals put forward in this CP reflect and take account of the DFSA's objectives in the Regulatory Law, in particular:

- Article 8(3)(a) *"to foster and maintain fairness, transparency and efficiency in the financial services industry (namely, the financial services and related activities carried on) in the DIFC"*.
- Article 8(3)(b) "*to foster and maintain confidence in the financial services industry in the DIFC*";
- Article 8(3)(c) "*to foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk*";
- Article 8(3)(e) "*to protect direct and indirect users and prospective users of the financial services industry in the DIFC*"; and
- Article 8(3)(f) "*to promote public understanding of the regulation of the financial services industry in the DIFC".*

[1] QIF, Exempt Funds and Public Funds.

15. In addition, the proposals take account of the applicable guiding principles in the Regulatory Law including Article 8(4)(a) "*fostering the development of the DIFC as an internationally respected financial centre"* and Article 8(4)(d) "*minimising the adverse effects of the activities of the DFSA on competition in the financial services industry."*

16. At a future date, we may issue supervisory guidelines to provide additional clarity to Authorised Firms as to our expectations with regard to how they may comply with certain Rules.

17. An Authorised Firm that has been granted a waiver or modification of any Rule that we are proposing to delete or amend as part of this CP should assess how the proposals in this CP impact the waiver or modification and, if necessary, engage with the DFSA's supervision team.

18. This CP also includes discussion points (in Part II), on which we also seek your feedback. These items may be the subject of policy proposals in the future.

PART I: ITEMS FOR CONSULTATION

Section A: Specialist classes of Domestic Funds

19. The CIL[2] gives the DFSA express power to make Rules which prescribe the circumstances in which any type of Domestic Fund is to be treated as a specialist class of Fund. This DFSA power has been used to create a number of specialist classes of Domestic Funds that are subject to specific requirements.

A.1: Specialist classes

20. Market feedback has indicated that fixed classifications for Funds (e.g. specialist classes) may be overly restrictive and do not adequately accommodate hybrid or multi-strategy investing. Hybrid or multi-strategy Funds often blend traditional and alternative strategies and may not fit neatly within a single classification.

21. As a risk-based regulator, we are primarily concerned with the risks a Fund poses to our objectives, including the protection of users. A focus on rigid classifications can prevent Fund Managers from employing hybrid or multi-investment strategies. We propose to move away from specialist classes for Exempt Funds and QIFs, and to move towards an approach that focuses more directly on the activities undertaken, the associated risks and the safeguards needed to manage those risks. This will maintain a strong standard of investor protection, whilst aligning requirements more closely with the risk profile of the relevant Fund and its investors.

Please see draft amendments to Article 17 of CIL, CIR Rule 1.2.2 and CIR section 3.

[2] Article 17.

A.2: Specialist class requirements

22. We have compared our specialist class requirements for Exempt Funds and QIFs to regulatory regimes in comparable Fund management jurisdictions and found that our regime is overly prescriptive. Given that investment in such Funds is limited to professional investors, who have adequate/relevant experience and the financial capacity to withstand loss, we consider that a different approach is warranted.

23. Accordingly, we propose to:

(i) remove the specialist class requirements for Exempt Funds that are constituted as:
   a. Money Market Funds (MMFs); and
   b. Private Equity Funds;

(ii) remove the specialist class requirements for Exempt Funds and QIFs that are constituted as:
   a. Credit Funds (note that we propose to retain some requirements for Funds with an investment strategy that involves Providing Credit – see section A.2.1 below); and

(iii) shift the focus to disclosures.

24. Our intention is to ensure strong regulatory standards are maintained and to adjust the framework so that requirements and appropriate safeguards are directed at and applied to the relevant risks. In this regard, we propose to bolster some principles in our Rules to cater for the broader strategies we are seeing and are likely to see in the DIFC. This includes proposals to:

a) apply the existing specialist class requirements on risk management[3] on a horizontal basis, and to introduce some new risk management system and Fund risk profile requirements. These would apply to all Fund Managers including Fund Managers of Public Funds.

b) to introduce a Rule to require QIF and Exempt Funds to calculate borrowing limitations in a reasonable and prudent manner. Additionally, with the move to a more disclosure-based approach, we propose that the expected maximum level of borrowing be disclosed along with an explanation of the basis on which this level has been determined.

c) to apply the existing specialist class requirements on the use of prime brokers[4] to QIF and Exempt Funds that authorise prime brokers to pool, re-hypothecate, or use the Fund's assets as collateral for financing and securities lending activities.

We view this as appropriate when combined with a restricted investor base (i.e. Professional Clients only) and disclosures.

25. We are of the view that for Fund Managers, the proposals mentioned in

[3] CIR Rules 13.6.1 and 13.6.2.
[4] CIR Rule 13.6.3.

paragraph 24 should not be material, as they reflect international regulatory standards and expectations. If the proposals are adopted, we would expect Authorised Firms to assess their operations to ascertain whether any changes would be required and to implement them accordingly.

Please see draft amendments to CIR sections 8.14, 8.15, 13.3 and 13.12 and CIR Rules 12.1.2(b) and 13.1.1.

A.2.1: Investment strategies that involve Providing Credit

26. Following a couple of years of experience with our Credit Funds regime and given the feedback received to the Call for Evidence[5] on Credit Funds in 2024, we have concluded that some changes are warranted. In this regard, we propose to remove the current requirement that 90% of the Fund Property must be used to Provide Credit for a Fund to be constituted as a Credit Fund.[6]

27. We have also concluded that certain existing safeguards should be retained where a Fund has an investment strategy that involves Providing Credit. In particular, we propose to continue to:

(i) prohibit the provision of credit facilities such as letters of credit or financial guarantees due to the severe liquidity repercussions they could have on the Fund;

(ii) prohibit the provision of credit to the following:

a) natural persons;
b) persons who intend to utilise the credit for trading; and
c) persons who intend to use the credit for the purpose of providing credit.[7]

(iii) keep the substance of the Rule requiring policies and procedures relating to management of credit risk.[8]

28. It is worth noting that some of the existing specialist requirements on risk diversification[9] are now captured within the horizontally applicable requirement on risk management (i.e. draft CIR section 8.14). Additionally, in line with the shift of focus to disclosures, the existing requirements on risk warnings in marketing materials[10] have been retained and moved to the part of the CIR that deals with Prospectus disclosures.[11]

29. Lastly, it is important to emphasise that the specialist requirements for investment strategies that involve Providing Credit are in addition to all the other requirements in our regime that a Fund Manager needs to adhere to when managing a Fund.

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[5] DFSA Call for Evidence – Credit Funds.
[6] CIR Rule 3.1.15(1).
[7] CIR Rule 13.12.5.
[8] CIR Rule 13.12.6(1).
[9] CIR Rule 13.12.9.
[10] CIR Rule 13.12.13.
[11] CIR chapter 14.

Please see draft amendments to CIR Rule 3.1.15, CIR section 13.12 and CIR 8.14 Guidance item 1.

A.2.1.1: Base capital requirement

30. Currently the base capital requirement for Credit Funds is USD140,000, compared to a base capital requirement of USD40,000 (or an Expenditure Based Capital Minimum of 13/52) for all other Funds. In line with our proposals to remove certain requirements for Funds that have an investment strategy that involves Providing Credit, we consider that the current higher base capital requirement is no longer needed. We, therefore, propose to align the base capital requirement for Fund Managers that have an investment strategy that involves Providing Credit with that applicable to all other Fund Managers (i.e. USD40,000).

Please see draft amendments to PIB Rule 3.6.2.

A.2.1.2: Fees

31. At present a prospective Fund Manager that would like to manage a Credit Fund is required to pay an application fee of USD10,000 and a subsequent annual fee of USD10,000. Consistent with the equal treatment of Fund Managers adopted in the above proposals, we consider that the current fee structure is no longer needed. We propose to remove it.

Please see draft amendments to FER Rules 2.1.1(2) and 3.2.1(3).

A.2.2: Venture Capital Funds

32. In 2020, in support of the DIFC's 'Future of Finance' strategy, which encompasses venture capital funding as a key component of the overall ecosystem that drives economic growth in the DIFC, and the wider economy in Dubai and the UAE, we introduced a framework for Venture Capital Funds. The framework provides relief[12] to Fund Managers that manage Funds that invest at least 90% of their committed capital in unlisted companies that have been established for no longer than ten years.

33. We propose to retain this approach and extend its application to Fund Managers that manage Funds dedicated to investing in Venture Capital Funds.

Please see draft amendments to GLO, CIR Rules 1.2.2 and accompanying Guidance items 20 and 21 and CIR section 13.10.

[12] There is a dedicated fee schedule for Fund Managers that only manage Venture Capital Funds, such that the Fund Manager application fee and annual fees are USD2,000 respectively, and the annual Fund fee is USD1,000. Additionally, Fund Managers do not need to have an internal audit function, a finance officer, comply with the Rules on valuation and conflicts of interest (except for the Rules on related parties), prepare and submit Fund Manager reporting and do not need to apply capital requirements or the base capital requirement (they should however maintain an amount of liquid assets that are adequate in relation to the nature, size and complexity of the business).

Question 1:
Do you have comments on the DFSA's proposals to move away from fixed classifications of Funds?

Question 2:
Do you have comments on the DFSA's proposals to apply certain requirements (e.g. on risk management) horizontally to all Fund Managers?

Question 3:
Do you have comments on the DFSA's proposals in paragraph 24(b) regarding borrowing?

Question 4:
Do you have comments on the DFSA's proposals to apply the requirements on the use of prime brokers more broadly beyond Hedge Funds?

Question 5:
Do you have comments on the DFSA's proposals to retain certain requirements for investment strategies that involve Providing Credit?

Question 6:
Do you have comments on the DFSA's proposals to expand the Venture Capital Fund Manager regime to Funds dedicated to investing in Venture Capital Funds?

Section B: Financial Services activity of Managing Assets

34. An Authorised Firm in the DIFC, to which a Fund Manager delegates discretionary investment management of Fund Property, must be authorised by the DFSA to carry out the activity of Managing Assets. Managing Assets is defined as managing, on a discretionary basis, assets that belong to another Person. Market feedback has indicated a need for greater clarity regarding the Financial Services authorisations required for this investment management business model.

B.1: Dealing in Investments as Agent and Arranging Deals in Investments

35. In order to manage Fund Property on a delegated basis, an investment manager will be Dealing in Investments as Agent. There could also be circumstances in which the investment manager is also Arranging Deals in Investments for the Fund. Currently, an investment manager would be required to apply for additional authorisation to perform these activities.

36. In this context we view Arranging Deals in Investments and Dealing in Investments as Agent to be integral activities for the performance of investment management for a Fund. We propose to clarify that both activities are covered by an authorisation to Manage Assets, to the extent that they are necessary for the investment management of Fund Property under a delegation from a Fund Manager.

37. If the proposal is adopted, Authorised Firms who currently have an authorisation for Arranging Deals in Investment and Dealing in Investment as Agent, and use

these authorisations exclusively to manage Fund Property on a delegated basis, should consider whether to apply for removal of these authorisations once the changes take effect.

Please see draft amendments to GEN Rule 2.10.1(2).

B.2: Dealing in Investments as Principal

38. There may also be instances where an investment manager may wish to Deal in Investments as Principal, particularly where it invests its own firm's capital in the portfolio it manages. At present, if an investment manager makes a subscription for Units in a Private Equity Fund, it is excluded from the need to be authorised for Dealing in Investments as Principal - provided it makes an initial subscription and the Units are held for a period of longer than 12 months.[13] We propose to extend the exclusion from the need to be authorised for Dealing in Investments as Principal to instances where the investment manager makes subscriptions for initial Units in a Venture Capital Fund.

Please see draft amendments to GLO and GEN Rule 2.7.5.

Question 7:
Do you have comments on the DFSA's proposal to clarify that Dealing in Investments as Agent and Arranging Deals in Investments are covered by an authorisation to Manage Assets, where necessary for the investment management of Fund Property under a delegation?

Question 8:
Do you have comments on the DFSA's proposal to broaden the category of Funds that an investment manager can invest in (initially) without the need to be authorised for Dealing in Investments as Principal?

Section C: Fund structures

C.1: Master Fund eligibility criteria for public Feeder Funds

39. CIR[14] defines a Feeder Fund as a Fund that is dedicated to investing in the Units of a single other Fund (i.e. a Master Fund). In addition, CIR[15] provides that a Public Fund will not qualify as a Feeder Fund unless the specified Master Fund eligibility criteria are met.

40. Over the years we have received industry feedback that certain Master Fund eligibility criteria are difficult to satisfy and that this is ultimately preventing the establishment of public Feeder Funds in the DIFC for the following reasons.

41. First, the requirement that a Master Fund's Units be offered for purchase or sale regularly by at least three market makers[16] does not reflect how the Fund industry operates and is, therefore, difficult to satisfy. This was originally introduced in 2010 to ensure that the Master Fund had adequate liquidity to meet redemption

[13] GEN Rule 2.7.5.
[14] CIR Rule 3.1.4.
[15] CIR Rule 13.2.1(1)(b).
[16] CIR Rule 13.2.1(2)(b).

requests.

42. Under our regime, Fund Managers are required to ensure that Funds they manage have sufficient liquidity to meet redemption requests and are required to disclose the liquidity management tools.[17] To meet this requirement, a Fund Manager of a public Feeder Fund will need to assess that the respective Master Fund has adequate liquidity management tools in place to meet redemption requests. In light of this, we propose to remove this Master Fund eligibility criterion for public Feeder Funds as it is duplicative of the existing requirement.

43. Second, it is challenging to meet the requirement that provides that the Feeder Fund cannot hold more than 20% of the Master Fund's Units.[18] This provision was put in place in 2010 to address concentration risk. However, given that the sole objective of a Feeder Fund is to invest in its respective Master Fund, we do not consider this requirement necessary or proportionate in light of the existing safeguards.

Please see draft amendments to CIR Rules 7A.3.1 and CIR section 13.2.

C.2: Master Fund definition

44. According to CIR[19], a Fund only qualifies as a Master Fund if it issues Units to other Funds (e.g. Feeder Funds) which are dedicated to investing in it. This narrow application prevents Master Funds from receiving direct institutional or professional investment, which is a common feature in international master-feeder structures. Therefore, we propose to broaden the definition of Master Fund to allow for subscriptions from non-Feeder Fund investors alongside subscriptions from Feeder Funds.

Please see draft amendments to CIR Rule 1.2.2.

Question 9:
Do you have comments on the DFSA's proposals to remove some of the Master Fund eligibility criteria for public Feeder Funds?

Question 10:
Do you have comments on the DFSA's proposal to broaden the definition of Master Fund?

Section D: External Fund Managers

45. In 2010, in CP69[20] we removed the prohibition that prevented Fund Managers located outside the DIFC from being able to manage Domestic Funds. This meant that a non-DIFC Fund Manager could establish and manage a Domestic Fund in the DIFC without having to establish a place of business in the DIFC. Such Fund Managers are referred to as External Fund Managers (EFMs).

[17] CIR section 8.6A.
[18] CIR Rule 13.2.1(2)(c).
[19] CIR Rule 3.1.5.
[20] https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/DFSA_CP69.pdf

46. The regime was initially introduced to enable non-DIFC Fund Managers to gain expertise in respect of the DFSA's regulatory regime and was accompanied by safeguards such that EFMs:

    (i) could only originate from jurisdictions included in the DFSA's Recognised Jurisdictions list or from jurisdictions that are 'otherwise acceptable' to the DFSA;

    (ii) would need to subject themselves to the laws of the DIFC and the jurisdiction of the DIFC Courts; and

    (iii) would need to appoint a DFSA-licensed Fund Administrator or a Trustee.

47. However, because EFMs are not established in the DIFC, the effectiveness of the DFSA's powers over them is limited. In recent times, we have also experienced strong interest from applicants seeking to establish as DFSA-licensed Fund Managers. We proposed to remove the EFM regime reflecting the increased demand for DFSA authorisation (and correspondingly the lack of appetite for the EFM regime), and the limited supervisory reach over non-DIFC entities.[21]

48. Fund Managers based in the DIFC will continue to be permitted to manage External Funds, as continuing to allow for the management of such Funds remains a fundamental component of being an international financial centre.

    Please see draft amendments to Articles 41(9) and 42(3)(a) of the Regulatory Law, Article 20(5) of CIL, CIR section 6.1 and CIR section 1.1.

Question 11:
Do you have comments on the DFSA's proposal to remove the EFM regime?

Section E: Employee investment in Funds

49. Currently, our regime does not provide a means for Employees to invest in the private Funds that their employer manages, unless they meet the relevant QIF or Exempt Fund investor criteria.[22] We have received market feedback that offering Employees the opportunity to invest in the private Funds they manage is an important mechanism to align Employee interests with investor goals, provide incentives and promote recruitment and retention.

E.1: Direct investment

50. Such an investment can be made in two ways, the first of which includes direct investment. The key barriers to direct investment include the:

    (i) initial minimum subscription amounts, which are quite high; and

[21] We will discuss with existing EFMs regarding continuing to manage Funds existing at the date of the launch of this CP.
[22] Article 16(4) of the CIL provides the investor eligibility criteria for Exempt Funds. Article 16(5) of the CIL provides the investor eligibility criteria for QIFs.

(ii) requirement to be a Professional Client.[23]

51. We propose that certain Employees are permitted to invest in private Funds their employer manages without the Fund losing its status as a QIF or an Exempt Fund. To achieve this, the minimum subscription amounts would no longer apply, nor would the minimum net asset requirements. However, it is important that the Employees have sufficient investment knowledge, and therefore we propose that the Employee must meet the experience criteria in COB Rule 2.3.7(1)(b). This would include employees of the Fund Manager or of an Authorised Firm appointed by the Fund Manager for Managing Assets who are directly involved in: (i) the execution of the investment decisions on behalf of the Fund; or (ii) providing investment advice to the Fund Manager in respect of the relevant Fund.

E.2: Indirect investment

52. It is not uncommon to offer Employees the ability to make investments in the Funds that their employer manages through special vehicles established for this purpose. We are of the view that it should be possible to use such vehicles for Employee investment purposes, should that be an avenue that a Fund Manager wants to pursue.

53. In order to facilitate this, we propose to create an exclusion in CIR so that such vehicles would not be treated as Collective Investment Funds. We also propose that investments in such vehicles would be limited to the staff directly involved in the fund's investment management process (as above for direct investment).

E.3: Disclosure

54. Employee investment (either directly or indirectly) has the potential to create alignment with investor goals, but it also has the potential to create conflicts of interest. Despite there being existing requirements in both CIL[24] and CIR[25] to ensure proper use of information, to avoid unfair advantages, and to manage conflicts of interest, we are of the view that this should be reinforced.

55. Therefore, we propose to add additional disclosure requirements and guidance, the objective being to ensure that investors:

(i) are made aware that there are Fund Manager employee investors (either directly or indirectly) in the Fund; and

(ii) receive the requisite information as to how conflicts of interest will be managed in these scenarios, in addition to existing requirements to ensure investors have enough information to make an informed investment.

[23] COB Rule 2.3.7.
[24] Article 22(3) provides that Employees or agents (where investment management is delegated) of the Fund Manager must not make improper use of information or their position to gain an advantage or cause detriment to the Unitholders of the Fund.
[25] CIR Rule 8.3.1(2) has detailed Rules on conflicts of interest and requires the disclosure of any conflict and how it will be managed.

Please see draft amendments to Article 16(8) of CIL, CIR Rules 1.2.2, 12.1.1(6) and 12A.1.1(5).

Question 12:
Do you have comments on the DFSA's proposals to permit Employees involved in the investment management process to make direct and indirect investments in the Funds that their employer manages?

Section F: Accounting period for first annual report

56. CIR[26] provides that a Fund Manager must produce an annual report four months after the end of the accounting period and an interim report two months after the end of each interim accounting period. When a Fund is initially established, the accounting period for the first annual report runs:

(i) for Public Funds, from the date of Fund registration; and

(ii) for QIF and Exempt Funds, from the date of notification to the DFSA.

The accounting period ends 12 months after the respective dates.

57. When a Fund is established, for various reasons, there is often a delay before it is launched. As a result, the current accounting period of 12 months does not always truly demonstrate the activity of the Fund. On this basis, we propose to extend the accounting period to 18 months to ensure the first reporting period accurately reflects a Fund's activity.

Please see draft amendments to CIR Rule 9.4.2(2).

Question 13:
Do you have any comments on the DFSA's proposal to change the accounting period for the first annual report?

Section G: Changes to CIL and related Rulebook amendments

G.1: Fund Manager definition

58. A Fund Manager's contractual obligations are typically owed to the Fund vehicle or its Governing Body (for example, the Board, Trustee or general partner) and not directly to the Fund's investors. Depending on the jurisdiction, Fund Managers may also be held liable outside of their formal agreements. For example, Funds and investors themselves may have recourse to the courts for a Fund Manager's negligence, misrepresentation or breach of fiduciary duty.

59. The CIL and our Rulebook apply a concept of 'legal accountability to the Unitholders' that has proven problematic. It has, for example, created difficulties in relation to global Fund structures that envisage the management of Foreign Funds in and from the DIFC. Our benchmarking has also demonstrated that other jurisdictions do not employ this concept for the purpose of defining a Fund

Manager.

60. We therefore propose amendments to the CIL and related amendments to our Rulebook[27] to clarify that a person falls within the definition of a Fund Manager even if that person is not legally accountable directly to Unitholders. The proposed amendments are intended to prevent this important definition being interpreted too narrowly, particularly in structures where the Fund Manager's obligations are owed to the Fund vehicle or its Governing Body rather than directly to investors. A Fund Manager will however continue to be is subject to the obligation in CIL to act in the best interests of the Unitholders when exercising its powers and carrying out its duties. The proposed amendments will not reduce investor protection standards in the DIFC.[28]

Please see draft amendments to Articles 20(2)(a) and 22(2)(g)(ii) of CIL, GEN Rule 2.12.1(1)(a) and GEN 2.10 Guidance item 1 and CIR 8. 1A Guidance item 1.

G.2: Waivers and modifications to CIL

61. In 2011, in CP75,[29] we proposed, and were granted, the ability to waive and modify the Markets Law[30] where the DFSA considered it appropriate or desirable in the interests of the DIFC to do so. While Article 25 of the Regulatory Law affords the DFSA broad powers to waive and modify Rules, it does not contain a similar power as found in the Markets Law.

62. Given the breadth of different Funds that Fund Managers can manage, as well as the scope of what the regime covers, there is a compelling case for extending the DFSA's power to allow it to also waive or modify the CIL, with which CIR is inextricably linked. CIL applies detailed requirements directly to Fund Managers. These may not be appropriate across all business models in all circumstances and the DFSA ought to be able to modify such requirements on appropriate grounds in pursuit of its statutory objectives. Such a change would make it possible to adapt our Funds framework to the evolving needs of the DIFC's Funds sector. The DFSA anticipates that the power would be exercised only in limited circumstances and subject to robust internal processes.

63. Therefore, we propose to recommend that the DFSA be granted the ability to modify or waive provisions of the CIL, where appropriate and justified in line with the DFSA's objectives.

Please see draft amendments to Article 10 of CIL.

G.3: Streamlining

64. We consider that elements of the regime should be streamlined. This does not involve changing underlying policy. Examples of provisions we propose to amend or delete are the following:

[27] CIR and GEN.
[28] In addition to the protections afforded by the CIL, the DFSA Rulebook's current investor protection standards include those set out in CIR chapters 8 and 14 as well as in GEN chapter 4.
[29] https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/DFSA_cp_75.pdf
[30] Article 9.

a. *Application provisions in section 1.1 of chapter 1 and section 14.1 of chapter 14 of the CIR*. For instance, the requirement in Rule 1.2.2(a) duplicates the requirement in Rule 1.1.3(a). The former provides for the CIR to apply to "every Person who carries on, or intends to carry on, in or from the DIFC the Financial Services of Managing a Collective Investment Fund". The latter provides for the CIR to apply to "every Person who is, or intends to be, a Fund Manager". There is further overlap between each of these Rules and Rule 1.1.4(a), which states that the CIR applies to an "Authorised Firm […] that provides a Financial Service […] in relation to a Domestic Fund that is a Foreign Fund".

b. *Article 17 of CIL*. This provides for the DFSA to prescribe the circumstances in which any type of Domestic Fund is to be treated as a specialist class. This is a power the DFSA has in any event afforded by the Regulatory Law. With the move away from fixed classifications of Funds, we propose to recommend the deletion of Article 17 of CIL. The change would tidy up the CIL and remove a redundant provision without changing what the DFSA has the power to do. The DFSA would retain the ability under broad powers in the Regulatory Law to prescribe specific Rules for specific types of Funds should the need arise in the future.

c. *Article 10 of CIL*. The DFSA can waive or modify the CIR under its general power in Article 25 of the Regulatory Law. The current article 10 of CIL serves merely as a signpost to that underlying authority. On the basis that the CIL provision is redundant, we propose to recommend that Article 10 be deleted.

65. The DFSA proposes amendments, therefore, to refine and consolidate provisions in the CIR and the CIL to enhance the clarity of our regime.

Please see draft amendments to Section 1.1 of Chapter 1 of the CIR, section 14.1 of Chapter 14 of the CIR and Articles 10 and 17 of the CIL.

Question 14:
Do you have comments on the DFSA's proposal to make a technical amendment to the CIL and the Rulebook as per paragraph 60?

Question 15:
Do you have comments on the DFSA's proposal to recommend the introduction of a power to waive and modify the CIL as per paragraph 63?

Question 16
Do you have comments on the DFSA's proposal to streamline provisions of the CIL and the Rulebook as per paragraph 65?

Section H: Transition period

66. The changes proposed involve the removal of certain restrictions or are purely clarificatory in nature, and in many cases reflect international standards and regulatory best practice. Therefore, we propose a general transition period of three months for all the proposed changes to take effect.

Question 17:
Do you have comments on the DFSA's proposed transition period?

PART II: ITEMS FOR DISCUSSION

Section A: Tokenisation

67. The rise of distributed ledger technology (DLT) and tokenisation is seen as one of the means to meet the financial markets' growing demand for speed, efficiency and connectivity. We are seeing the use of Distributed Ledger Technology (DLT)[31] as a way of representing an investment, or ownership of an investment, and to support the operations of Fund management, for example, in relation to back-office functions and interactions with investors.

68. There are a number of applications of DLT in relation to Funds and Fund management that may be used. This could include:

- Funds which issue tokenised Units; or
- Funds which invest in tokenised Units or other types of tokenised assets;
- Crypto Tokens held as Fund Property; or
- Crypto Tokens used for Fund operations.

69. We are interested to know whether:

(i) there are areas of development in DLT or tokenisation that are not considered or permitted by our current Rules;

(ii) there may be a lack of clarity about how firms can utilise this technology in respect of Funds and/or Fund management; or

(iii) our current Rules are too prescriptive on processes which may deter firms from using this technology.

DFSA's regulatory approach

70. In 2021, the DFSA consulted on CP 138[32] and subsequently introduced Rules that permitted the issuance of tokenised Units, as well as allowing Funds to invest in, and hold tokenised Units as part of Fund Property. The Rules also prescribed requirements in relation to disclosure, custody and technology governance.

71. While this type of tokenisation has generated global interest, and is recognised for its potential benefits, we have not seen material market developments in this area. Market engagement has highlighted challenges to scale this activity, including legal, regulatory and cost barriers, but we have not received any substantive feedback on the Rules since we adopted them in 2021. Therefore, we seek your feedback on areas where clarifications or improvements could be

[31] https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/CP138_Regulation_of_Security_Tokens.pdf

made to CIR.

Tokenised Units in a Fund

72. Tokenised Units in a Fund are tokens that reflect rights of participation in a Fund by means of DLT. In this case, the token governs the interaction between the Fund Manager, the Fund and the investor, aiming to simplify the way Units of Funds are bought and sold. Where a Fund issues tokenised Units as the sole means of representation, the ledger becomes the only undisputed record of the number of Units held by each investor. This means that our existing Rules governing, for example, how Units are registered in CIR section 8.7, may not be flexible enough to allow firms to operate a fully digital register.

73. We invite views on whether there are any regulatory barriers/challenges to the issuance of tokenised Fund Units in the DIFC.

Tokenised Money Market Funds

74. We also note that tokenised Units in a Fund, specifically tokenised Money Market Funds (tMMFs), are being posted as collateral in non-centrally cleared derivative transactions. The advantages of tMMFs appear to include transparent records of ownership and operational efficiencies in terms of automating collateral management processes and providing almost instantaneous settlement (atomic settlement).

75. We are interested to hear more about the advantages and opportunities presented by tMMFs, but also the challenges (including regulatory challenges) that might arise with their use, and how we might go about addressing them.

Funds holding tokenised investments

76. Today, most Funds which issue tokenised Units invest in conventional assets, for example, a tMMF would typically have Fund Property consisting of short-term, liquid debt instruments cash, and cash equivalents. However, we are aware that some Funds may want to invest in tokenised Units, or other types of tokenised investments, in order to benefit from faster settlement times and lower costs.

77. We are also aware that the Fund may need to hold other types of assets, for example, Crypto Tokens, Fiat Crypto Tokens and/or other so called "stablecoins" as settlement assets or to pay blockchain transaction fees, for example, if it elects to hold tokenised investments.

78. We do not consider that the current Rules in CIR prevent these types of investments from occurring. Nonetheless, we seek your thoughts on whether this view is accurate in practice, or whether there are any other changes that would be necessary or helpful to enable investment in tokenised Units.

Question 18:

A) Are there regulatory barriers/challenges to the issuance of tokenised Fund Units in the DIFC? If yes, please specify which regulation/Rules and explain how it is a challenge?

B) What are the opportunities presented by tMMFs, what regulatory challenges may arise with their use, and how might the DFSA address them?

C) Are there any other purposes for which Funds or Fund Managers may need to hold Crypto Tokens or Fiat Crypto Tokens to support Fund operations?

Section B: Long-term investment Funds

79. In line with the D33 strategy and developing the DIFC as a leading financial centre, we have been considering the possible introduction of a long-term investment Fund (LTIF) regime for retail investors. LTIFs typically provide long-term financing to the real economy by investing in real assets[33] and/or investing or offering loans to, unlisted companies. LTIFs essentially contain illiquid asset classes that are only available to professional investors under our regime.

80. As of today, LTIFs can be established in the DIFC, as either Exempt Funds or QIFs, under our current regime. However, if we develop a regime for LTIFs to be offered to retail investors, or to a restricted retail segment of the market, there are certain safeguards that would need to be built into our regime.

81. The most well-known LTIF regulatory regimes exist in the EU and the UK, and more recently[34] the Monetary Authority of Singapore consulted on a proposed regime which has yet to be concluded. From these regimes we understand that the key safeguards when offering LTIFs to retail investors appear to be:

- who should have access to LTIFs;
- the *modus operandi* for redemptions; and
- investor awareness.

82. As an initial step, we seek your thoughts on:

(i) the appropriateness of, and market for, developing such a regime;

(ii) whether you have any comments on some of the key safeguards that we discuss below; and

(iii) whether there are any other aspects that would be necessary or helpful to enable retail access to LTIFs.

[33] An example would include immovable property, equipment, transport, energy-transition and similar assets that finance productive activity.
[34] March 2025.

We will consider the feedback received and may develop policy proposals for retail access to LTIFs in the future.

Access to LTIFs

83. As LTIF assets tend to be illiquid and of a long-term nature, they are unlikely to be suitable for all types of retail investors. We have seen, in other regulatory regimes, that a suitability assessment is required to assess whether it is suitable for a retail investor to invest in LTIFs. In this regard, we would welcome your views on whether you consider LTIFs as suitable for mass retail or whether they should only be made available to a restricted segment of the retail market.

Redemptions

84. Typically, retail investors like to have access to their capital. In line with this, a notable feature of LTIFs, in other markets, is the ability to redeem Units despite the long-term illiquid nature of the assets. To enable the granting of redemptions, we have observed that regulators mandate that a certain portion of the LTIF must be comprised of liquid assets (e.g. cash or easier-to-sell investments to help cover redemptions).

85. Moreover, we have seen that regulatory regimes can be prescriptive about the frequency of redemptions, the minimum notice period for payment of redemptions and the minimum amount of the LTIF's Net Asset Value that should be offered for redemption purposes. In this regard, we would welcome your views on redemptions and how they could be facilitated.

Investor awareness

86. Another aspect of established regimes for LTIFs is the focus on investor awareness, given the long-term illiquid nature of the assets. In this regard, a key information document is often required, which explains the LTIF's features and risks. In this regard, we would welcome your views on how investors can be made aware of the features and risks of LTIFs.

Question 19:

A) Do you deem LTIFs as suitable for mass retail or should they only be made available to a restricted segment of the retail market?

B) If it is appropriate for the DFSA to grant retail investors access to LTIFs, what protections should be included beyond those described in this CP?

C) What are your views on redemptions where a Fund is comprised of assets of a long-term illiquid nature? If you deem redemptions appropriate for retail investment in LTIFs, how should they be facilitated?

D) What do you view as the most appropriate way to raise awareness amongst retail investors about the features and risks of LTIFs?