

On 30 December 2025, the United Arab Emirates (UAE) issued Federal Decree Law No. 25 of 2025, introducing a comprehensive new Civil Transactions Law (or “New Law”) that is currently reported to take effect on 1 June 2026. The New Law represents a major development in the UAE’s legal framework and is part of the UAE’s broader legislative modernisation agenda aimed at enhancing legal clarity and promoting investment throughout the UAE. Unlike previous reform efforts, which were largely incremental, the New Law constitutes a wholesale legislative re-codification of UAE civil law, replacing the prior framework in its entirety rather than amending it selectively.

The UAE Civil Code, originally enacted as Federal Law No. 5 of 1985 (the “1985 Civil Code”), has long served as the foundational civil code governing the contractual and non-criminal matters across the UAE. Over time it was amended in a piecemeal fashion, once in 1987 and again in 2020, to keep pace with the nation’s rapid commercial and social developments. The 1985 Civil Code provided the baseline principles for civil obligations including contracts, torts, obligations and liability, property and securities, but its age and incremental updates resulted in areas of uncertainty and overlap with newer sector-specific laws, such as the companies law and bankruptcy law. In practice, this overlap often required courts and practitioners to navigate parallel or duplicative provisions across different legislative instruments, creating uncertainty as to hierarchy and application.

The New Law replaces the 1985 Civil Code (as amended) and aligns the UAE with recent civil law reforms in the region, including Kuwait’s contract law updates, Qatar’s civil code reforms and the transformation of Saudi Arabia’s legal landscape and introduction of its first ever civil code. The New Law reflects the UAE’s ongoing commitment to legal innovation, efficiency and competitiveness as a global business hub. It is designed to reduce legal uncertainty and facilitate dispute resolution in line with the UAE’s values by incorporating many long anticipated reforms across substantive civil law, including contractual interpretation, legal capacity, negotiations, framework agreements and other core principles. A key policy objective underpinning the New Law is legislative streamlining, whereby matters are now governed comprehensively by specialised private laws are deliberately excluded from the Civil Code to reduce duplication and reinforce statutory coherence.

Key Reforms

1. Gap Filling and Legal Hierarchy

The New Law updates fundamental principles on how legal gaps and conflicts between laws are resolved. Article 4 now clarifies that a specific provision will prevail over a general one when there is a conflict, unless otherwise expressly stated. This reinforces the primacy of special laws (for example, banking or commercial laws) over general provisions in the Civil Code, and reflects a deliberate legislative intent to guide courts toward specialised statutes where such statutes exist.

In addition, where the Civil Code is silent, the New Law expressly authorises courts to fill gaps by reference to Islamic Sharia, selecting the solution that best serves the public interest. If no applicable Sharia rule exists, courts may apply customary practices provided they do not conflict with public order or morals, and, failing that, principles of natural law and justice.

This approach replaces the older system which set out a fixed hierarchy of specific jurisprudential schools of thoughts and introduces greater judicial flexibility. This broader judicial discretion allows for easier resolution of novel and multifaceted disputes, while also demanding a higher level of judicial transparency, compelling courts to articulate clearly the basis upon which Sharia principles, custom or general principles of justice are engaged.

2. Strengthened Party Autonomy and Choice of Governing Law

The New Law expressly prioritises the parties’ discretion in determining the governing law of contracts. Article 19 provides that contractual obligations, in both form and substance, are governed by the law expressly agreed between the parties. Only in the absence of such agreement does the law default to the jurisdiction of the parties’ common domicile or, failing that, the place of performance of the principal contractual obligation. This clarification reduces the scope for jurisdictional disputes and strengthens predictability for international and cross-border transactions involving UAE elements.

3. Codification of Abuse of Rights and Proportionality

While the concept of abuse of rights existed under the 1985 Civil Code, the New Law materially refines this doctrine. Article 106 provides a clearer, more defined and structured framework for assessing when the exercise of a legal or contractual right becomes unlawful. A right may be considered abused not only where there is intent to cause harm, but also where the benefit sought is disproportionate to the harm inflicted on others, where the exercise conflicts with law, public order or morals, or where it exceeds customary practice.

This enhanced formulation introduces an objective proportionality test into the assessment of contractual and proprietary rights, as well as the definition of when it is abused. From a transactional perspective, this new framework will require careful drafting. Parties to a contract will have to act commercially reasonably when negotiating and performing a contract. From a disputes perspective, this reform reinforces the need for a measured and considered approach to the invocation of contractual rights in context of the overall relationship between the parties.

4. Contract Interpretation and Good Faith

The New Law retains the core principle that contractual language controls agreements if their wording is clear, and that interpretation should seek the parties’ intent where wording is ambiguous. However, it expands on this framework with several important additions. Articles 119-122 codify comprehensive rules on contractual interpretation and expressly embed the doctrine of good faith as a central contractual principle. The New Law emphasises that contracts must be interpreted in a manner that ensures fairness and good faith between the parties, an approach that is a core tenant in UAE legislation, in contrast to a number of Western legal systems. The New Law further empowers courts to consider commercial custom, the surrounding circumstances at the time of contract formation and the relative positions of the parties, thereby adopting a more contextual and purposive approach to interpretation.

5. Pre-contract Negotiations and Duty to Disclose

One of the most significant features of the New Law is the formal introduction of duties in pre contractual negotiations, which were absent in 1985 Civil Code. Article 121 clarifies that all stages of negotiation, including initiation, conduct and termination, must conform to the requirements of good faith. A party that negotiates or terminates negotiations before a contract is entered into in bad faith is liable for the other party's actual damages, although not for the loss of expected profits or lost opportunities to achieve those profits, unless otherwise agreed. Importantly, the New Law identifies deliberate withholding of material information during the negotiation phase that would affect contract validity as an act of bad faith. This represents a shift toward earlier intervention by the law at the negotiation stage, rather than confining remedies to post-contractual disputes. Under the New Law, misrepresentation is now grounds for compensation.

Article 122 further expands the duty to disclose by making the provision of material and decisive information an obligation on both negotiating parties. Each party must exercise due care in supplying relevant information and data relating to the negotiations, and the intended contract. Information is considered material and decisive if it is directly and necessarily related to the substance of the contract, or to the characteristics of the parties. Any contractual provision seeking to limit or exclude this disclosure obligation is void, and an affected party may seek annulment of the contract on that basis.

6. Framework Agreements

Another notable reform is the official recognition of framework agreements under Article 138. A framework agreement allows parties to predefine essential terms that will govern subsequent contracts between them. Unless otherwise agreed, such framework agreements are considered as forming part of the definitive contract. The recognition of framework agreement is expected to assist in reducing negotiation time and cost, and potential disputes, especially in regular services and trading contracts.

7. Modernisation of Rules around Capacity, Legal Personality and Representation

The New Law updates and clarifies several foundational rules relating to legal capacity, domicile and legal personality. It expressly recognises the possibility of multiple domiciles and distinguishes between personal domicile and commercial domicile, which may have implications for jurisdiction, service of process and enforcement strategies. The law also reinforces the autonomy of juridical persons by clearly delineating their independent financial liability, litigation capacity and representative authority.

8. Contract Formation, Silence, and Modern Deal-making Practices

The New Law modernises contract formation rules to better reflect contemporary commercial practices. It recognises a broader range of methods for expressing consent, including conduct, implied acceptance and silence in specific circumstances where it is supported by prior dealings or commercial custom. For example, offers made through the display of goods or services with a stated price are generally treated as binding offers, unless circumstances indicate otherwise.

These provisions codify practices that were previously inferred through judicial interpretation and reduce uncertainty in fast-moving commercial environments such as digital platforms.

The New Civil Transactions Law represents a decisive shift toward a modern, codified and commercially responsive civil law framework. While many familiar principles are retained, the New Law introduces important new obligations and interpretive approaches that will materially affect how contracts are negotiated, drafted, interpreted, litigated and enforced in the UAE. It also reflects a deliberate legislative effort to streamline the private law framework, reduce duplication and reinforce the hierarchy between the Civil Code and specialised legislation.

The New Law is to take effect on 1 June 2026. In the meantime, businesses can begin preparing for the New Law's entry into force by reviewing template agreements, negotiation protocols, disclosure practices and governing law provisions. Particular attention should be paid to pre-contractual communications, information disclosure, framework agreements and discretionary contractual rights.

Our Corporate and Dispute Resolution teams are working closely to assess the practical impact of the New Law across key sectors and transaction types, and we would be pleased to discuss how these reforms may affect your existing or future arrangements.

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