
THE GLOBAL REGULATORY DEVELOPMENTS JOURNAL

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Production Editor: Sharon D. Ray

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Editorial Office

729 15th Street, NW, Suite 500, Washington, D.C. 20005

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Articles and Submissions

Direct editorial inquiries and send material for publication to:

Steven A. Meyerowitz, Editor-in-Chief, Meyerowitz Communications Inc.,
26910 Grand Central Parkway, #18R, Floral Park, NY 11005, smeyerowitz@
meyerowitzcommunications.com, 631.291.5541.

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Abu Dhabi Global Market Proposes to Ease Regulations for Smaller and Institutional Fund Managers

Chris Macbeth, Michael J. Preston, Timofey Neklyudov,
Olisa Maduegbuna, Chanel Yusuf-Bishop, and Omar Almansoori*

In this article, the authors provide a high-level overview of a consultation paper published by the Financial Services Regulatory Authority of the Abu Dhabi Global Market (ADGM), proposing significant reforms to the ADGM's private funds regulatory framework.

The Financial Services Regulatory Authority (FSRA) of the Abu Dhabi Global Market (ADGM) has published Consultation Paper No. 12 of 2025 (the CP), proposing significant reforms to the ADGM's private funds regulatory framework.¹

The proposals introduce two streamlined regulatory regimes for (1) fund managers with a maximum committed capital of \$200 million, and (2) fund managers that exclusively target institutional investors. The CP also proposes to clarify that Employee Investment Vehicles are exempt from fund licensing requirements. At the same time, the FSRA proposes to strengthen regulatory oversight and local nexus requirements for Foreign Fund Managers operating ADGM domiciled funds.

To ensure the ADGM private funds framework remains fit for purpose, the CP also seeks any broader feedback on the ADGM's existing regulatory frameworks for Private Credit Funds, ADGM Green Funds, ADGM Climate Transition Funds, and private Real Estate Investment Trusts. This approach reflects the FSRA's commitment to maintaining an ongoing dialogue with fund managers employing such strategies, with a view to improve the regulatory regime applicable to these specialist fund categories.

Overall, we expect the proposed reforms to further enhance the ADGM's positioning as a leading, highly competitive, and institutionally credible domicile for private fund managers across a broad range of strategies and fund sizes.

The CP represents the first phase of a two-stage consultation process regarding the FSRA's comprehensive reform of the ADGM funds regime, with a second consultation paper on additional reforms expected later in 2026, including on public funds. The FSRA invited stakeholder submissions in the form of comments to the CP. The consultation period closed on January 30, 2026.

Overview

The ADGM has developed a comprehensive funds framework, positioning itself as a leading global centre for private fund formation and cross-border asset management. Under the FSRA's existing rules, prospective ADGM-based fund managers are required to complete an approval process to obtain "Category 3C" licenses to "manage collective investment funds," following which they become subject to minimum base capital requirements and are generally required to appoint the following officers (which, subject to certain exemptions, must be UAE-resident):

- Licensed Director/Partner,
- Senior Executive Officer,
- Finance Officer,
- Compliance Officer, and
- Money Laundering Reporting Officer.

The CP proposes sponsor-friendly enhancements to the ADGM's private funds regulations for the benefit of (1) ADGM-based private fund managers with no more than \$200 million in committed capital across all their funds and that only operate closed-ended funds (Sub-Threshold Fund Managers or STFMs), and (2) managers of private funds (whether closed-ended or open-ended) solely targeting large institutional investors (such as sovereign wealth funds) with a minimum subscription per investor of \$5 million and no natural persons permitted to be investors (Institutional Fund Managers or IFMs). Both STFMs and IFMs would benefit from reduced capital requirements, streamlined licensing, and exemptions from certain governance obligations (e.g., no requirement to appoint a Finance Officer or establish an internal audit function).

Eased Regulations for Sub-Threshold Fund Managers

Given the lower systemic risks associated with their activities, STFMs will benefit from reduced minimum base capital requirements. Currently, ADGM private fund managers must by default maintain base capital equal to the higher of (1) \$50,000, and (2) an Expenditure-Based Capital Requirement of 13/52 of Annual Audited Expenses (i.e., base capital equivalent to at least 13 weeks of annual expenses). Under the CP, the FSRA proposes that STFMs would be subject only to a fixed \$50,000 base capital requirement, with no Expenditure-Based Capital Requirement.

The lighter-touch regime for STFMs reflects international precedent under the EU Alternative Investment Fund Managers Directive (AIFMD), which applies differentiated requirements based on, among other factors, manager size. Under the AIFMD, lighter-touch status is available for fund managers with assets under management not exceeding €100 million, or €500 million where funds are unlevered and subject to five-year redemption restrictions. The FSRA's proposed \$200 million threshold represents a reasonable balance between these two AIFMD thresholds. In contrast to the AIFMD approach, the CP does not provide for a second, higher threshold (i.e., \$500 million) subject to additional guardrails, such as appropriately calibrated limits on leverage, which may be an area for future consideration. The proposals may also merit further clarification as to which vehicles fall within the definition of a "Fund" for the purpose of calculating the committed capital threshold for STFMs; for example, whether co-investment vehicles, fund-of-one arrangements, and similar special purpose vehicles would be excluded from such calculations (as is the approach under the AIFMD).

The CP also seeks feedback on a potential leverage cap of 100 percent of net asset value for STFM-managed Funds. We consider it to be a reasonable threshold, although the appropriateness of such cap would depend on how leverage is defined and measured, in particular: (1) whether leverage refers to fund-level borrowing only (which we consider to be more in line with market practice) or also attributes portfolio company-level leverage, and (2) whether temporary subscription facilities or bridging finance (e.g., facilities with maturities of less than 12 months) would be exempt, given that such facilities are typically treated as working-capital timing

tools rather than “true” leverage, particularly where they are fully covered by uncalled commitments and repaid within a short period.

On the other hand, the CP proposes that STFMs would be prohibited from operating as “Host Fund Managers” (i.e., acting as a proxy manager for third-party sponsors) and would remain subject to professional indemnity insurance requirements applicable to other fund managers. These requirements are intended to mitigate potential regulatory oversight risks from the above easing of regulation for STFMs.

Eased Regulations for Institutional Fund Managers

Unlike STFMs, IFMs targeting solely institutional investors would have no fundraising limits and would be exempt from professional indemnity insurance requirements, on the basis that institutional investors are better positioned to conduct due diligence, negotiate terms, actively monitor fund managers, and replace them during insolvency events. In practice, despite the proposed reforms, many IFMs may nonetheless elect to maintain such insurance voluntarily as a matter of good governance practice.

The CP proposes IFMs would benefit from a minimum base capital requirement equal to the higher of (1) \$50,000, and (2) an Expenditure-Based Capital Requirement of 6/52 of Annual Audited Expenditure (i.e., capital equivalent to at least six weeks of annual expenses). While the Expenditure-Based Capital Requirement is higher than that for STFMs (with no Expenditure-Based Capital Requirement), the figure represents approximately 50 percent of the current standard requirement for ADGM private fund managers. This strikes an appropriate balance between the full-scope framework and the STFM framework given that institutional investors possess the resources and expertise necessary to navigate a fund manager transition.

Unlike STFMs, IFMs would be permitted to manage open-ended funds, recognising that institutional investors are sufficiently sophisticated to manage liquidity and redemption risks. By contrast with the AIFMD and the U.S. Securities and Exchange Commission Rule 22e-4, the CP does not expressly anticipate requiring IFMs managing open-ended funds to maintain documented liquidity

risk management policies, which could be an area for further consideration.

Applying for STFM or IFM Status

Existing ADGM-licensed fund managers that satisfy the relevant criteria would be eligible to apply for STFM or IFM status. Fund managers would retain such status only while continuing to satisfy the eligibility criteria; failure to do so would require FSRA notification and eventual transition into the more comprehensive regulatory regime applicable to standard fund managers (referred to as Full Scope Fund Managers). The proposals leave open whether cure periods (e.g., 60 to 90 days) would be available for temporary breaches and whether application pathways would exist over the long-term for fluid transition between the categories of IFM and STFM or from a Full Scope Fund Manager to any of an IFM or STFM. Several of the regulatory exemptions which the CP proposes for STFMs and IFMs are currently only available within the ADGM to managers of venture capital funds investing in the securities of early stage companies. Therefore, the proposals would enable ADGM-based fund managers engaged in a broader range of strategies to benefit from lighter regulatory obligations.

Additional Regulatory Oversight of Foreign Fund Managers

In line with the FSRA's policy objective of encouraging international fund managers to establish local operations in the ADGM, the CP also proposes reforms to strengthen the local nexus of fund managers licensed by non-ADGM jurisdictions that operate ADGM-domiciled funds (Foreign Fund Managers or FFMs). FFMs would be restricted from acting as Host Fund Managers and ADGM funds managed by FFMs would be required to appoint (1) at least one UAE-resident director in the fund vehicle or the general partner (as applicable), (2) an ADGM-based fund administrator, and (3) an ADGM-licensed corporate service provider. New ADGM funds established by FFMs would also be limited to closed-ended Qualified Investor Funds (QIFs) (subject to a

minimum subscription of \$500,000) and required to fully submit to ADGM law and jurisdiction.

Existing ADGM-domiciled funds managed by FFMs will be “grandfathered” with respect to the requirements to (x) only manage closed-ended QIFs, (y) appoint a UAE-resident director, and (z) fully submit to ADGM law and jurisdiction, meaning that they will be permitted to continue operating under the existing regulatory framework without being required to comply with the aforementioned new requirements. The CP does not currently provide for a grandfathering mechanism with respect to the requirements to appoint an ADGM-based fund administrator and an ADGM-licensed corporate service provider, or the prohibition on FFMs operating as Host Fund Managers. It remains to be seen whether any transition period for implementation of such requirements (for example, 12 to 18 months) would be introduced for existing FFM-managed funds. Open questions also remain around (1) whether parallel funds, alternative investment vehicles, successor funds and continuation vehicles will be similarly grandfathered alongside their original ADGM fund vehicles, and (2) whether material amendments or extensions to the terms of existing funds would affect grandfathered status.

Facilitating Employee Co-Investment

The CP proposes reforms regarding Employee Co-Investment Vehicles (EIVs). Currently, the ADGM rules are ambiguous as to whether EIVs constitute standalone funds subject to separate licensing and client classification requirements as if the employees were ordinary third-party investors unrelated to the fund manager’s operations. The CP proposes to facilitate employee investment into employer-managed private funds by exempting EIVs from rules on minimum subscription amount per investor and client classification regulations. As a result, eligible employees would not be required to satisfy the net worth thresholds applicable to professional clients. The CP acknowledges that EIVs play an important role in allowing fund managers to further incentivise key employees and demonstrate to investors that employees directly involved in executing the investment strategy have “skin in the game.” The CP proposes targeted regulatory adjustments to better support this investment structure.

Under the proposals, an investment in EIVs not treated as regulated funds would be limited to front-office employees, directors of fund managers, or investment advisors directly involved in executing or advising on the Fund's investment strategy. If an ineligible person is admitted to an EIV, the vehicle would be tainted and therefore cease to qualify as an EIV and instead be treated as an ordinary Fund subject to minimum subscription rules and client classification requirements. The CP suggests that the eligibility test for employees should apply at the time of initial investment. It would be helpful for the final rules to clarify whether the eligibility test should be applied only at the point of initial subscription, with no requirement to re-test eligibility at each subsequent capital call and no divestment obligation should the employee subsequently cease to meet the eligibility criteria during their tenure.

Additional areas for clarification include whether:

1. consultants and independent contractors with equivalent roles in investment decision-making may participate;
2. former employees who were eligible at the time of initial commitment would also be permitted to retain existing interests and fund their original commitment amounts;
3. family members of eligible employees may participate in EIVs, consistent with common market practice for employee co-investment programs; and
4. a limited cure period (e.g., 90 days) would be available for inadvertent breaches and tainting, allowing remediation before the vehicle loses its EIV status.

Key Takeaways

The CP represents a significant step in the ADGM's continued development as a leading jurisdiction for private fund formation. If the proposed rule changes are enacted, fund managers pursuing private equity, private credit, real estate, infrastructure, and other strategies would benefit from streamlined regulatory treatment previously available only to venture capital fund managers, provided they either raise no more than \$200 million in committed capital or target exclusively institutional investors within the ADGM. The EIV reforms would provide greater certainty for employee co-investment structures, while the FFM reforms are expected to

encourage international fund managers to establish a more substantial ADGM presence.

We encourage stakeholders to:

1. assess whether their existing fund structures qualify for STFM or IFM status;
2. consider the timing of new applications relative to implementation;
3. for FFMs, evaluate whether establishing a fully licensed ADGM presence would be advantageous; and
4. review employee co-investment arrangements in light of the proposed EIV framework.

Given the CP's invitation for general comments on the ADGM's other specialist regulatory frameworks for Private Credit Funds, ADGM Green Funds, ADGM Climate Transition Funds, and private Real Estate Investment Trusts (REITs), fund managers employing relevant strategies should note the FSRA's additional interest in reforming such areas and the possibility of further engaging with the FSRA, particularly as future consultation papers or regulations addressing these fund categories may be forthcoming.

Since its establishment in 2015, the ADGM has experienced exceptional growth and record-breaking foreign investment, further cementing Abu Dhabi's status as the "Capital of Capital." The ADGM reported that in the first half of 2025, total assets under management within the ADGM surged by 42 percent compared to the first half of 2024, as the number of operational entities grew by 42 percent year-on-year and the number of new Financial Services Permissions granted to firms grew by 45 percent year-on-year.² The proposed reforms are expected to further contribute to this momentum.

Notes

* The authors, attorneys with Cleary Gottlieb Steen & Hamilton LLP, may be contacted at cmacbeth@cgsh.com, mpreston@cgsh.com, tneklyudov@cgsh.com, omaduegbuna@cgsh.com, cbishop@cgsh.com, and oalmansoori@cgsh.com, respectively.

1. ADGM Financial Services Regulatory Authority, Consultation Paper No. 12 of 2025—Proposed Enhancements to the FSRA's Funds Framework (Nov. 24, 2025), <https://adgmen.thomsonreuters.com/rulebook/>

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2. “ADGM Is the MENA Region’s Largest IFC with 11,128 Active Licences at the End of H1 2025,” Report published by the ADGM (8 Sept. 2025), <https://www.adgm.com/media/announcements/adgm-is-the-mena-region-largest-ifc-with-11128-active-licences-at-the-end-of-h1-2025>.