



DIFC Introduces the UAE's First Variable Capital Company Regime

The Dubai International Financial Centre has introduced the Variable Capital Company Regulations 2026, effective February 9, 2026, establishing the UAE's first comprehensive legal framework for variable capital companies. This new corporate structure represents a significant development in the DIFC's regulatory landscape, offering a sophisticated vehicle specifically designed to hold and manage segregated assets through a cellular company structure.

A Variable Capital Company is a private company that can create legally distinct cells—either as Segregated Cells or Incorporated Cells—for holding and managing assets separately from the company's core operations and other cells.

The regulations apply to companies incorporated, converted, or continued as VCCs in the DIFC, providing a flexible alternative to traditional corporate structures while maintaining robust creditor protection mechanisms.

Why the VCC Structure Matters?

The VCC framework addresses specific needs in the investment management, family office, and asset holding sectors by providing:

Asset Segregation and Protection

The cellular structure creates legally enforceable barriers between distinct asset pools. Cellular Assets attributable to one cell are absolutely protected from the creditors of other cells or the VCC itself. This ring-fencing is reinforced by implied contract terms in every transaction, ensuring that no party can use the assets of one cell to satisfy the liabilities of another.

Dynamic Capital Flexibility

Unlike traditional companies with fixed share capital, a VCC's share capital must always equal its Net Asset Value. This variable capital structure allows for continuous alignment between the economic value of assets and the capital structure, with shares being issued and redeemed at prices reflecting current Net Asset Value.

Regulatory Efficiency

The regime allows multiple asset pools to operate under a single corporate umbrella with streamlined reporting requirements. This reduces administrative burden while maintaining transparency through segregated accounting and separate shareholder registers for each cell.

Targeted Use Cases

The regulations explicitly permit VCCs to hold assets for Crowdfunding Structures, Funds, and Family Offices providing Family Office Services, creating a purpose-built vehicle for these increasingly important wealth management structures.

The framework fills a gap in the UAE's corporate law ecosystem by providing a modern alternative that combines the benefits of asset segregation with the flexibility of variable capital, positioning the DIFC competitively with other international financial centers offering similar vehicles.

Key Features of the VCC Framework

Corporate Structure and Cell Types

A VCC may create either Segregated Cells or Incorporated Cells, but not both types simultaneously. A Segregated Cell is a legally distinct division within the VCC that does not create a separate legal person, while an Incorporated Cell is deemed a separate Private Company under the Companies Law. This structural choice is fundamental and must be specified in the VCC's Articles of Association.

Each Incorporated Cell has its own Articles of Association and is treated as a separate company for most regulatory purposes, though it shares the same Registered Office and, if applicable, the same Corporate Service Provider as its parent VCC. Importantly, Incorporated Cells are not considered subsidiaries or parents of the VCC or other Incorporated Cells, avoiding the complexities of group structures.

Share Capital Mechanics

The regulations establish a unique capital framework in which the actual value of paid-up share capital must always equal the Net Asset Value of the VCC or the relevant cell. Shares may be issued at prices equal to the proportion of Net Asset Value attributable to each share, and similarly, redemptions and purchases occur at prices reflecting current Net Asset Value.

All shares issued by a VCC must be redeemable in accordance with their terms of issue. Upon redemption or purchase, shares are cancelled forthwith, and the share capital reduces accordingly. Treasury shares are prohibited. A VCC or cell cannot redeem shares to the extent that it would result in having no shares in issue.

The Net Asset Value determination must follow one of three methodologies specified in the Articles of Association: fair value basis, a specific valuation methodology where fair value is not ascertainable, or a combination of both approaches.

Distribution Framework

Distributions by a VCC or cell may be made only when the entity has a positive Net Asset Value and the distribution would not reduce Net Asset Value to below zero. For Cellular Distributions, no account is taken of

profits, losses, assets, or liabilities of other cells or Non-Cellular Assets. This ensures that distributions are always made from the specific pool of assets to which shareholders have economic exposure.

Shareholders who receive distributions made in contravention of these requirements, and who know or have reasonable grounds to believe the distribution was unlawful, are liable to repay the amount received. The VCC or cell that makes unlawful distributions faces fines of up to USD 20,000.

Establishment and Operational Requirements

Unless qualifying as an Exempt VCC, every VCC must appoint a Corporate Service Provider registered with the DFSA to act on its behalf. An Exempt VCC is one where the Controller is a Registered Person, Authorised Firm, Government Entity, or Publicly Listed Entity. The Corporate Service Provider must lodge all required documents with the Registrar, maintain up-to-date copies of all records, and ensure regulatory compliance.

The License of a VCC and its Incorporated Cells is restricted to holding company activities. VCCs are prohibited from employing any employees or other workers, reinforcing their nature as passive asset holding vehicles. VCCs may not be used to provide Financial Services or establish Funds unless expressly permitted by the DFSA, though they may hold assets for Crowdfunding Structures, Funds, and Family Offices.

Officer Duties and Personal Liability

Officers of a VCC bear specific duties to ensure proper asset segregation. They must ensure that Cellular Assets are kept separate and separately identifiable from Non-Cellular Assets, and that Cellular Assets of different cells remain separately identifiable from each

other. This duty is not breached when assets are held through nominees or are collectively invested, provided they remain separately identifiable.

Officers face personal liability when they knowingly, recklessly, or negligently fail to maintain proper segregation or fail to identify the relevant cell when transacting. Personal liability also arises when officers fail to inform counterparties that they are transacting with a VCC or a cell, or fail to specify which Cellular Assets are available to satisfy obligations. However, officers have a right of indemnity against Non-Cellular Assets unless they acted fraudulently, recklessly, negligently, or in bad faith.

The Court may relieve officers of personal liability if satisfied they were unaware of the circumstances giving rise to liability and were not fraudulent, reckless, negligent, or acting in bad faith, or if they expressly objected and exercised their rights to prevent the circumstances.

Creditor Protection Mechanisms

The regulations establish comprehensive creditor protection through multiple layers of safeguards. Cellular Assets of a particular cell are available only to creditors of that cell and are absolutely protected from shareholders or creditors of other cells or the VCC generally. Conversely, creditors of a specific cell have no recourse to the Cellular Assets of other cells or to Non-Cellular Assets.

Every contract with a VCC or cell contains implied terms prohibiting the use of one cell's assets to satisfy another cell's liabilities. If any party succeeds in wrongfully applying such assets, they must pay the VCC an amount equal to the benefit obtained and hold wrongfully seized assets in a fiduciary capacity for prompt return to the VCC.

If the Cellular Assets of a Segregated Cell are wrongfully taken, the VCC must cause its auditor to certify the value of assets lost and transfer sufficient assets or sums from the liable cell or Non-Cellular Assets to restore the affected cell. Where Cellular Assets are insufficient, Non-Cellular Assets must make up the deficiency.

Cell Transfers, Mergers, and Conversions

Segregated Cells may be transferred, merged, or consolidated, but only after comprehensive notice procedures. The VCC must provide 30 days' written notice to all creditors and contracting parties and publish notice in an Appointed Publication 30 to 45 days before applying to the Registrar. A Special Resolution of shareholders of the affected cells is required, along with a director's declaration confirming compliance and absence of objections.

Creditors and contracting parties have 15 days to object in writing. If an objection is raised, the VCC cannot proceed unless the objection is withdrawn or the objecting party fails to initiate court proceedings within 15 days. Applications to the Court must be filed within this period, and the transfer, merger, or consolidation remains stayed until the Court renders final judgment.

For Incorporated Cells, transfers between cells are subject to statutory duties and approval requirements applicable to separate legal persons under the Companies Law. Mergers or consolidations of Incorporated Cells follow the requirements of Part 8 of the Companies Law.

Conversion and Continuation Procedures

The regulations provide flexibility for structural changes. A VCC with Segregated Cells may convert to one with Incorporated Cells and

vice versa, subject to authorization by Articles of Association and Special Resolution. Existing companies may convert to VCCs, and VCCs may convert to ordinary companies, though these conversions require 30 days' notice to creditors and contracting parties and publication in an Appointed Publication.

Foreign Companies may be continued as VCCs in the DIFC, and VCCs may be continued in foreign jurisdictions, subject to applicable laws. Creditors and contracting parties have a 15-day Court Application Period to object on grounds that the conversion would be unfairly prejudicial to their interests.

Incorporated Cells may apply to be registered as independent companies. Upon such registration, the independent company inherits all rights, liabilities, actions, and proceedings of the former Incorporated Cell, with Cell Shareholders becoming shareholders of the independent company.

Register Keeper Framework

VCCs and Incorporated Cells may appoint Register Keepers—Corporate Service Providers, Authorised Firms, or Registrar-approved persons—to maintain shareholder and debenture holder registers. The Register Keeper's name may appear in registers as nominee, and they may maintain sub-registers as provided in the Articles of Association.

Registers must be readily searchable by shareholder or debenture holder accounts, with interests in each cell separately identifiable. Records must ensure asset and liability segregation and reflect Net Asset Value proportionally to each shareholder's or debenture holder's interests.

The appointment of a Register Keeper does not remove VCC obligations to identify, obtain, and maintain Ultimate Beneficial Owner and Controller information in accordance with the UBO Regulations, and the Registrar retains full powers to obtain such information.

Reporting and Enforcement

VCCs must file Confirmation Statements confirming compliance with all regulatory obligations, including whether they qualify as Exempt VCCs. For VCCs with Segregated Cells, the statement must detail the active cells and the status of inactive cells including whether they are struck off or wound up. For Incorporated Cells, confirmation of each cell's compliance is required.

The Registrar may suspend, vary, or revoke VCC status for non-compliance after providing notice specifying grounds, required corrective action, and the objection process. For VCCs providing Financial Services or holding assets for Crowdfunding Structures or Funds, the Registrar must notify the DFSA of any revocation notices. Upon revocation of its status, a VCC with revoked status ceases to be a VCC and loses all exemptions and concessions.

VCCs cannot be dissolved after winding up until all cells are transferred out, converted, or wound up in accordance with the Insolvency Law. The DIFC Insolvency Law and Insolvency Regulations apply with necessary adaptations to VCCs with Segregated Cells.

Fee Structure

The regulations establish a streamlined fee structure:

Category	Description	Fee (USD)
Incorporation	Incorporation application	100
Licensing	License grant or renewal	1000
Cell Formation	Segregated Cell formation	300
Compliance Filing	Confirmation Statement	300
Continuation/ Transfer	Continuation or transfer application	1,000
Administrative Fine	Failure to provide documents to Corporate Service Provider	100,000

Our Insights

The introduction of the VCC framework represents a strategic enhancement to the DIFC's corporate law offering, particularly relevant for family offices, investment managers, and sponsors of crowdfunding platforms seeking robust asset segregation within a single corporate vehicle.

Strategic Advantages for Family Offices

The VCC structure is particularly well-suited for multi-generational family wealth structures where different asset classes or family branches require separate management while benefiting from unified administration. The ability to create Incorporated Cells as separate legal entities provides additional flexibility for succession planning and tailored governance arrangements for different family members or asset pools.

Considerations for Fund Structures

While VCCs may hold assets for Funds, the prohibition on employing staff and restriction to holding company activities means VCCs cannot function as operating fund vehicles. They are best deployed as underlying asset holding entities within broader fund structures. The dynamic Net Asset Value-linked capital mechanism aligns well with open-ended fund economics, though sponsors must carefully consider whether Segregated Cells or Incorporated Cells better suit their investment strategy and investor base.

Corporate Service Provider Selection

The mandatory Corporate Service Provider requirement for non-exempt VCCs creates an additional layer of oversight but also operational dependency. Organizations should evaluate Corporate Service Provider capabilities in managing cellular structures

and maintaining segregated accounting systems. The potential for personal officer liability for segregation failures makes robust service provider selection critical.

Conversion Complexity

While the regulations permit conversions from existing company structures, the 30-day notice requirements and creditor objection procedures create timing uncertainties. Organizations considering conversion should factor in potential delays and the risk of court applications by objecting parties. The prohibition on converting between Segregated Cell and Incorporated Cell structures simultaneously means the initial structural choice has long-term implications.

Cross-Border Continuations

The ability to continue foreign companies as DIFC VCCs and vice versa opens opportunities to restructure existing offshore structures into the DIFC or redomicile DIFC VCCs to other jurisdictions. However, success depends on the receiving jurisdiction's laws and on navigating both DIFC and foreign regulatory requirements.

Operational Limitations

The prohibition on employing staff distinguishes VCCs from operating companies and limits their use to passive holding structures. Organizations requiring active management should consider whether board-level oversight combined with third-party service providers adequately meets their operational needs, or whether traditional corporate structures remain more appropriate.

Register Keeper Dynamics

The Register Keeper framework introduces flexibility in shareholder administration, particularly valuable for VCCs with complex ownership structures or where shares are held through nominee arrangements. However, organizations must ensure that Register Keeper appointments do not create gaps in Ultimate Beneficial Owner reporting obligations or complicate the Registrar's access to ownership information.

Regulatory Arbitrage Potential

The combination of robust asset segregation, variable capital mechanics, and permissible uses for Funds and crowdfunding structures positions the DIFC VCC competitively with comparable vehicles in jurisdictions such as Singapore (Variable Capital Companies), Cayman Islands (Segregated Portfolio Companies), and Luxembourg (SICAVs). The relatively modest fee structure and Exempt VCC provisions enhance this competitive positioning.

Implementation Timeline

Organizations should commence VCC structuring discussions early to accommodate the Registrar's review process, Corporate Service Provider appointment procedures, and the drafting of tailored Articles of Association incorporating appropriate Net Asset Value determination methodologies and cell governance provisions. For conversions from existing structures, additional time must be allocated for creditor notice periods and potential objection processes.

Conclusion

The VCC framework fills a genuine gap in the DIFC's corporate law landscape and provides a modern, internationally-aligned vehicle for segregated asset holding. However, its optimal deployment requires careful evaluation of whether the benefits of cellular segregation and variable capital outweigh the operational constraints and compliance obligations specific to this structure.



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