



ARTICLE • April 2026

KEY HIGHLIGHTS ON THE MAJOR CHANGES OF THE NEW UAE CIVIL TRANSACTIONS LAW

On the 1st of October 2025, the United Arab Emirates (“**UAE**”) issued Federal Decree-Law No. 25 of 2025 (the “**2025 Civil Code**”), a new legislation that updates and replaces the old law, which was issued 40 years ago, back in 1985. The 2025 Civil Code will come into force on the 1st of June 2026, and with that, Federal Law No. 5 of 1985 and its amendments (the “**1985 Civil Code**”), will be repealed. This will be a historic milestone for the UAE, as the 1985 Civil Code is one of the oldest key pieces of legislation still in force, which also formed the core of the UAE’s civil law system.

In this article, we endeavor to outline some of the monumental changes that have been implemented in the 2025 Civil Code, bringing major changes *inter alia* to contract law, personal capacity, and judicial methodology.

1. PRINCIPLE CHANGES

The Law and Its Interpretation

The first major change comes from Article 1 of the 2025 Civil Code. The judicial methodology surrounding the source of the law and its interpretation has been developed from a restrictive approach to interpretation based on scholarly decisions to one that puts focus on morality, justice, and public interest as a basis for guidance.

Both versions of the civil code start with a similar opening. That is, legislative provisions apply to all legal matters and shall be followed to the letter and spirit. The change comes in Article 1(1) of the 2025 Civil Code, which adds clear language that specifically states that there shall be no independent legal reasoning where there are definitive solutions and interpretations in legislation. This completely removes any ambiguity concerning the interpretation of the law. If the law is clear, there can be no argument.

In addition to ensuring that there is no ambiguity surrounding how to interpret the law when definitive legislation exists, important changes have also been made to the methodology for handing down rulings when there is no clear guidance in legislation. Under the 1985 Civil Code, when there was an absence of guidance provided through legislation, whether it be ambiguous or non-existent, the courts were to make their decisions according to Shari’a principle, with decisions made in consideration of solutions from specific schools of thought guided by religious scholars. If no solution was found through this method, the courts would



ARTICLE • April 2026

decide according to local customs. However, Article 1(2) of the 2025 Civil Code moves away from this while maintaining adherence to Islamic principles. Comparable to the 1985 Civil Code, in the absence of clear legislation, the courts must first apply Shari'a principles, but only if their decisions are deemed appropriate by public interest. If the court finds no appropriate ruling or guidance from Shari'a, then it shall rule according to local customs under Article 1(3), just like the 1985 Civil Code. However, Article 1(4) of the 2025 Civil Code adds an additional layer that comes after applying local customs. If no ruling or guidance is found based on local customs, then the court must rule guided by the "*principles of natural law and the rules of justice*". While it is not entirely clear what the concrete definition of the wording is or how it will be applied, one could interpret it to mean that the courts should apply a ruling based on fairness and morality if no other clear legal solutions are available.

Even if both civil codes still share similarities, and these changes seem minor, the methodology provided to judges allows for much more flexibility in scenarios where the law is not clear or contradictory. By placing a focus on public interest, customs, and natural principles, these changes will hopefully allow for a fairer decision-making process that is just and in the best interests of the public in the event the law is silent.



Public Order, Policy and Social Norms

A further change that will have a great impact on how the law is interpreted in the UAE is the changes made to the definition and treatment of "*Public Order/Public Policy*", which are outlined under Article 3 of the 2025 Civil Code. Public Order or Public Policy, often used interchangeably, is a legal concept within the UAE that is based on social norms, local customs and local laws. The application is that the acts of individuals, foreign or domestic legislation, and other manners that are contrary to Public Order/Public Policy are always prohibited, i.e., against the UAE's social norms. Public Order/Public Policy will include the system of governance, its core rules and foundations of society, Shari'a principles, including those

relating to personal status, such as marriage and inheritance, and the social norms and customs surrounding wealth and trade.

The 1985 Civil Code gave a wide definition of Public Policy. The definition included the ideas previously discussed above, such as a system of government and the rules and foundations of society, reflecting the standard definition of Public Order. It is expressly stated that the ideals that form part of the state's Public Order cannot be inconsistent or contradict the fundamental principles of Shari'a. The definition proved hard to interpret; it had a wide net of ideals included that were vague rather than having a concrete meaning. The 2025 Civil Code streamlines and overhauls the definition, removing any ambiguity, while keeping the core concept intact. The 2025 Civil Code refers to the concept as Public Order, removing the old wording of '*Public Policy*'. It uses definitive wording outlining what specifically forms part of Public Order, as well as making additions to the definition, ensuring that concrete features outside general social norms or morality are included.

The four tenets that form the whole definition as stated under Article 3(1) and Article 3(4) are as follows:

1. Definitive rulings on Islamic Shari'a;
2. Provisions related to systems of governance;
3. Provisions related to the personal status of Muslims, such as marriage, inheritance, and lineage; and,
4. Mandatory legal rules (*jus cogens*) that may not be superseded by agreement and are stipulated in the laws issued in the United Arab Emirates.



This change matters because the 2025 Civil Code expressly incorporates the UAE's mandatory rules into the definition of Public Order under Article 3(4). This means that Public Order is no longer framed solely as an abstract notion of morality or social norms but provides a clear



ARTICLE • April 2026

statutory mechanism to give effect to non-derogable rules. In legal terms, a non-derogable rule is a mandatory rule of law that applies regardless of the parties' intentions. Even if both parties expressly agree otherwise, any contractual term that conflicts with a non-derogable rule is invalid or unenforceable to the extent of the conflict. Therefore, parties contracting in the UAE will no longer be able to opt out of statutory prohibitions and rules as UAE legislation will automatically apply. It also has a direct cross-border effect; even where foreign law would otherwise apply under the UAE conflict-of-laws rules, it cannot be applied if it conflicts with UAE public order or public morals, making the updated definition a key filter through which foreign governing-law clauses and foreign-law outcomes are tested. The changes tighten the definition and draw harder boundaries around freedom of contract, affecting whether terms are valid and enforceable, and increasing the likelihood that provisions contrary to these mandatory rules are invalidated.

Personal Capacity

One of the most consequential everyday changes is under Article 84 of the 2025 Civil Code, which modifies the framework of legal capacity by amending who will be treated as an adult for civil dealings, when a child is deemed capable of discernment (civil and criminal responsibility), and when a minor can be authorized to manage property. The amendments also clarify the convention for determining age, moving away from the Lunar and Hijri Calendar and toward the international standard of the Gregorian Calendar, to remove confusion around determining the age of majority.

Under the 1985 Civil Code, a person attained full legal age only upon completing twenty-one Lunar years. By comparison, Article 84(2) of the 2025 Civil Code lowers the age of majority to eighteen Gregorian years, meaning the full legal capacity to exercise civil rights outlined under Article 84(1) is reached earlier and on an expressly Gregorian basis. This amendment expands the pool of individuals who can contract, sue, and be sued, and dispose of assets without a guardian, at an earlier stage.





ARTICLE • April 2026

Equally significant is the shift in bridging between childhood and full adulthood. Under the 1985 Civil Code, an individual could be authorized to take delivery and administer property after completing eighteen Hijri years but could not generally engage in trade without completing eighteen Hijri years and obtaining court authorization. The 2025 Civil Code moves this authorization forward, under Article 149(1), the court may authorize a discerning minor who has completed fifteen Gregorian years to manage all or part of their property, subject to judicial conditions and oversight. The practical effect is that certain property-management and transactional competences can be unlocked earlier, within a clearer statutory framework.

These changes are major for three reasons. Firstly, it directly affects the validity of contracts and transactions entered into by young adults and older minors, particularly in banking, employment, consumer transactions, guarantees, settlement agreements, and asset transfers, by changing when a person is presumed to have full capacity and when guardian involvement is required. Secondly, it expands rights and autonomy earlier in life, by bringing forward the point at which individuals can independently exercise civil rights and, through court authorization, administer property before reaching full majority. Third, by moving from Lunar and Hijri measures to expressly Gregorian age measures, the reform reduces interpretive friction and aligns capacity thresholds with the civil system's broader approach to time calculation.



2. COMMERCIAL CONSIDERATIONS

Civil Companies Framework

Under the 1985 Civil Code, civil companies were dealt with under a broad partnership-style framework. The 2025 Civil Code retains that foundation but modifies it in a more modern and structured way. Article 606 of the 2025 Civil Code now makes a clearer distinction between civil and commercial companies, with commercial companies falling under the Commercial



ARTICLE • April 2026

Companies Law of 2021 and classifying a company as civil where its activity is not commercial in nature.

Furthermore, there are additional considerations for commercial partnerships and company formations. Under the 2025 Civil Code, Article 603(1), a partnership is an agreement between two or more persons to form a company to share labor and capital. But under the new framework, there is a specific carve-out, Article 603(2)(a) expressly recognizes that, where permitted by applicable legislation, a company may be established or owned by a single person. The new framework adds further clarity and builds on the old system. For example, Article 604 requires the partnership contract to be in writing, Article 605 addresses legal personality, and Articles 607 and 608 introduce express rules on capital contributions and labor contributions. Furthermore, a partnership can now be dissolved by the withdrawal of a partner if the partnership's duration is indefinite under Article 626, provided that the partner declares their intention to withdraw to the other partners before withdrawal and does so in good faith without causing the company to automatically dissolve. Partners can agree that the remaining partners can continue the venture by admitting a new partner, replacing the old one or acquiring the exiting partner's share. Under Article 626(2), it also permits, in cases where there are only two partners, the remaining partner to continue after the exit of the other partner.

The practical impact is greater clarity. The 2025 Civil Code does not merely restate the old rules; it separates civil companies more clearly from commercial companies, modernizes internal governance, and introduces a tailored regime for professional partnerships. That should make the framework easier to apply in practice, particularly for professional services businesses and other non-commercial ventures.



Construction Contracts

The 1985 Civil Code already contained a developed regime for construction contracts, including defective performance, pricing, termination and decennial liability. The 2025 Civil Code keeps that structure but states a number of points more clearly and in a more commercially practical manner. Article 818(1) now expressly requires the contractor to complete the work within the agreed period, or within a reasonable period if none is specified, and gives the employer clearer rights to require rectification or seek rescission where performance is defective or timely completion has become unrealistic. Article 819 deals with the contractor's liability for damage or loss arising from his work.

Articles 821 to 824 of the 2025 Civil Code preserve and elaborate the decennial liability regime, including the liability of the engineer and contractor, the prohibition on excluding that liability, and the limitation period for bringing a claim.



The 2025 Civil Code also gives more details on the commercial operation of construction contracts. Article 827 addresses staged payment where work is completed in separable parts or priced by unit. Article 828 deals with contracts based on estimates and gives the employer clearer options where costs exceed the estimate. Article 829(1) confirms the position on lump-sum contracts, but also expressly empowers the court, in exceptional general circumstances, to restore contractual equilibrium, including extending time, increasing or reducing remuneration, or ordering rescission. Article 832 confirms that subcontracting remains permissible unless restricted, while Articles 834 to 837 deal with termination, employer withdrawal and force majeure. Article 836(1) of the 2025 Civil Code cements the right of the employer to terminate the contracts for convenience by his own will at any time before its completion, provided the employer compensates the contractor for all expenses incurred, work completed, and what he could have earned had the contractor completed the work.



ARTICLE • April 2026

The overall effect is a clearer statutory framework for delay, pricing pressure, termination and risk allocation.

Non-Competition Penalties

The 1985 Civil Code recognised that an employee could be bound by a post-termination non-compete where the nature of the work gave the employee access to the employer's customers or business secrets, provided the restriction was limited to what was necessary. The 2025 Civil Code preserves that basic position but sharpens it. Article 851(1) expressly allows a post-termination non-compete where the employee's role gives them access to customers or confidential business information, but it now expressly requires that the employee must have attained majority at the time the clause is agreed under Article 851(2). The restriction must also remain limited in time, place and type of work to what is necessary to protect the employer's legitimate interests. Article 851 further confirms that the employer cannot rely on the clause where it terminated the contract, or refused renewal, without justification attributable to the employee, or where the employer gave the employee grounds to terminate. The 2025 Civil Code also deals more clearly with penalty clauses linked to non-compete obligations. Under Article 852, where the agreed penalty is exaggerated and effectively operates as a means of forcing the employee to remain in the employment of the employer for longer than the agreed period, the court may cancel or amend the clause.

The impact of these changes is that the approach will be a more balanced treatment of non-competition obligations. Employers can still protect legitimate business interests, but the new framework now states more clearly the limits of enforceability and gives the court an express supervisory role over overreaching restraints and penalties.





ARTICLE • April 2026

3. CONCLUSION

The 2025 Civil Code marks a deliberate leap by the UAE to modernise the foundations of its civil law system in line with the realities of a modern, globally connected economy. By refining judicial methodology, anchoring gap-filling in public interest and principles of justice and clarifying the limits of interpretation where legislation is definitive, the law strengthens predictability without sacrificing flexibility. The reworked concept of public order, now tied not only to social norms and Shari'a principles but also to mandatory UAE rules, reshapes the outer boundary of party autonomy and the treatment of foreign law. Recalibrating personal capacity to 18 Gregorian years, while allowing earlier court-supervised property management, similarly updates the law for contemporary civil dealings.

Just as important, the reform is not confined only to general principles; it builds a clearer commercial framework by adding a structured approach to the treatment of construction contracts, and provides more balance to the treatment of post-termination non-compete obligations and related penalties, all of which show reforms that are intended to work in practice as well as in theory. The result is a more coherent, modern and commercially attuned Civil Code, designed not merely to restate existing doctrine, but to support the next chapter of the UAE's legal development.

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