

Ashurst Middle East

Dispute Resolution Insights

May 2026

The impact of geopolitical events on the regulatory landscape in the UAE

Outpacing change

contents

Introduction	3
Understanding the FATF Mutual Evaluation Framework	5
The 2026 Mutual Evaluation	6
Updates to the UAE AML Law and enforcement activity	7-8
The impact of the regional conflict on the FATF evaluation	8-9
Looking ahead and practical advice for firms	9-10
Related Publications	11
Dispute Resolution Team	12

SUMMARY

- The UAE's next FATF mutual evaluation, with an on-site visit anticipated in June 2026 and Plenary discussion expected in February 2027. The evaluation will assess the country's AML/CFT/CPF framework under the strengthened 5th round methodology, which prioritises demonstrable effectiveness over documentary compliance.
- The 2026 conflict in the Middle East has intensified international scrutiny on counter-terrorism financing, proliferation financing and sanctions implementation capabilities across the region, bringing these matters into focus for the UAE's next mutual evaluation.
- Since being placed on the FATF grey list in March 2022, the UAE has undertaken significant reforms, securing removal from the grey list in February 2024 and from the EU's high-risk third country list in July 2025.
- Federal Decree-Law No. 10 of 2025 (the New AML Law), effective 14 October 2025, introduces personal criminal liability for managers, fines of up to AED 100 million, a specific proliferation financing regime, and express coverage of virtual assets and digital systems.
- In view of the geopolitical and regulatory environment, firms operating in or through the UAE should take proactive steps to calibrate sanctions screening, update enterprise-wide risk assessments, evidence the effectiveness of their controls, and ensure governance structures reflect the heightened accountability expectations under the new legislation.



Introduction

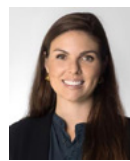
The UAE is approaching a critical juncture in the development of its anti-money laundering (AML) framework. With the next Financial Action Task Force (FATF) mutual evaluation expected to commence in June 2026, the spotlight is once again on whether the country's regime for combatting money laundering, the financing of terrorism (CFT) and proliferation financing (CPF) can demonstrate not just compliance, but effectiveness.

The significance of this evaluation has been heightened considerably by the current geopolitical environment, which has placed the UAE's financial system under international scrutiny and brought counter-terrorism financing and proliferation financing obligations into sharp focus.

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Understanding the FATF Mutual Evaluation Framework

FATF serves as the principal international body for establishing AML, CFT and CPF policies. Countries undergo assessment via a structured mutual evaluation process built upon two fundamental pillars: technical compliance and effectiveness.

Technical Compliance: The 40 Recommendations

The FATF's 40 Recommendations constitute the globally accepted benchmark for AML/CFT/CPF frameworks. Technical compliance examines whether a jurisdiction has enacted the necessary legal, regulatory, and institutional structures to satisfy the technical FATF requirements, irrespective of how effectively they operate in practice.

The recommendations encompass key thematic areas including national AML/CFT/CPF policies (R1-2), money laundering and confiscation (R3-4), terrorist financing and targeted sanctions (R5-8), preventive measures for financial institutions and Designated Non-Financial Businesses and Professions (**DNFBPs**) (R9-23), transparency of beneficial ownership (R24-25), powers of competent authorities (R26-35), and international cooperation (R36-40). Each recommendation receives one of five ratings: Compliant, Largely Compliant, Partially Compliant, Non-Compliant or Not Applicable.

Effectiveness: The 11 Immediate Outcomes

Whereas technical compliance concentrates on whether laws and procedures exist, effectiveness evaluates whether these structures are operating properly and delivering their intended results. FATF measures effectiveness using 11 Immediate Outcomes (**IOs**), each representing a fundamental element of a well-designed AML/CFT/CPF system, encompassing areas such as asset confiscation, supervision, and international cooperation. For each IO, assessors determine the extent to which the outcome is achieved and identify ways to enhance effectiveness. The effectiveness scale comprises four levels: High Effectiveness, Substantial Effectiveness, Moderate Effectiveness, and Low Effectiveness. Current methodology assessments operate on a six-year cycle, and assessors are required to clearly explain, in their conclusions on effectiveness, the basis of their judgment, including the deficiencies driving any lack of effectiveness, the core issues and information considered significant, how data and other indicators were interpreted, and the weight given to different aspects of the assessment.

The UAE's Progress: From the 2020 Mutual Evaluation to Today

The UAE's most recent FATF Mutual Evaluation took place in 2020 under the 2012 FATF Standards and using the 2013 methodology, with assessors conducting their on-site visit in July 2019. Although the evaluation recognised the UAE's robust legislative and institutional AML/CFT framework, it identified shortcomings in enforcement, DNFBP oversight, beneficial ownership transparency, and prosecution of sophisticated money laundering offences.

On technical compliance, the UAE achieved solid ratings: 11 recommendations rated Compliant, 23 Largely Compliant, 6 Partially Compliant, and none rated Non-Compliant. Effectiveness ratings, however, presented a less favourable picture: just 1 IO achieved Substantial Effectiveness, 6 attained Moderate Effectiveness, and 4 received Low Effectiveness ratings.

In March 2022, FATF added the UAE to its list of jurisdictions subject to increased monitoring, commonly known as the "grey list". The UAE responded with determination: national coordination was strengthened, supervisory authorities pivoted toward risk-based oversight, and regulatory expectations for firms became more explicit. In February 2024, FATF confirmed the UAE's removal from the grey list, acknowledging enhanced effectiveness across every element of its action plan. This was followed by the European Union removing the UAE from its list of high-risk third countries for AML/CFT in July 2025, aligning the EU's position with FATF's earlier delisting and removing the requirement for EU obliged entities to apply enhanced customer due diligence when dealing with UAE-based clients.





Recent Reforms

On 30 September 2025, the UAE promulgated Federal Decree-Law No. 10 of 2025 regarding AML, CFT and CPF, which came into effect on 14 October 2025 and repeals and supersedes Federal Decree-Law No. 20 of 2018 (the **New AML Law**).

The New AML Law introduces significant modifications to the UAE's AML/CFT framework and creates a specific regime addressing proliferation financing. Principal amendments include new offences for proliferation financing, a broadened definition of "predicate offence" encompassing tax evasion, a lowered legal threshold for establishing the principal offences (such that knowledge of illicit funds may now be inferred from objective circumstances), increased corporate sanctions with fines of up to AED 100 million for a single violation, potential personal criminal liability for managers, express coverage of digital systems and virtual assets, and strengthened Financial Intelligence Unit (**FIU**) asset-freezing powers. The implementing regulations were subsequently introduced through Cabinet Resolution No. 134 of 2025, which took effect on 14 December 2025.

On 2 September 2024, the UAE Cabinet approved a new National Strategy for AML/CFT/CPF (2024-27). Structured around four strategic pillars and 11 national goals, the strategy rests upon core pillars of risk-based compliance, effectiveness, and sustainability. Key priorities encompass strengthening supervision and enforcement, enhancing domestic coordination, deepening international cooperation, and embedding innovation and technology. The strategy addresses contemporary threats such as virtual assets, cyber-enabled crime and trade-based money laundering, and was developed with reference to the findings of the UAE's third National Risk Assessment.

Enforcement Activity

Enforcement activity since being placed on the grey list and then following the UAE's removal has continued without interruption across several UAE regulators, including the Central Bank of the UAE (**CBUAE**), the Abu Dhabi Global Market Financial Services Regulatory Authority (**FSRA**), the Dubai Financial Services Authority (**DFSA**), and the Virtual Assets Regulatory Authority (**VARA**).

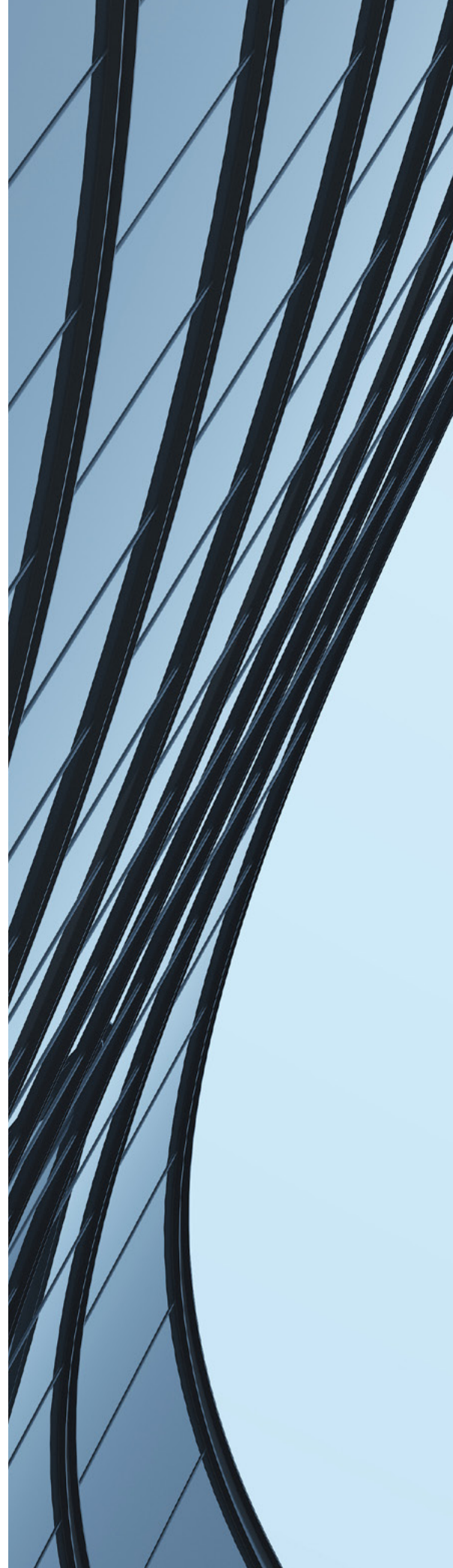
Recurring themes in regulatory enforcement include deficiencies in AML/CFT/CPF systems and controls, failures in customer due diligence and enhanced due diligence, beneficial ownership verification shortcomings, and suspicious transaction reporting failures. Higher-risk sectors—particularly exchange houses, virtual asset operators, and DNFBS—have attracted the most substantial penalties, with the CBUAE alone issuing nearly AED 350 million in fines in recent enforcement rounds, alongside multiple licence revocations. Notably, personal liability is being actively pursued, with individual managers receiving fines and prohibition orders alongside corporate penalties.

Overall, supervisory expectations have evolved significantly since 2020. UAE regulators have shifted firmly to risk-based oversight and, since delisting, have maintained pressure through targeted thematic reviews and closer follow-up on previously identified weaknesses.

The Regional Conflict and its Implications for the FATF Evaluation

The current regional conflict in the Middle East has fundamentally altered the environment in which the UAE's FATF evaluation will take place. While the evaluation process is standards-based, the conflict has brought three areas into sharp focus for GCC states: counter-terrorism financing, proliferation financing, and sanctions implementation.

The UAE's proximity to the conflict, its role as a major international financial and trade hub, and the intensity of associated sanctions activity mean that assessors are likely to scrutinise how effectively the UAE's systems identify and disrupt terrorism and proliferation financing flows, and whether sanctions obligations are implemented in a timely and comprehensive manner. This heightened geopolitical context underscores the importance of firms maintaining robust sanctions screening capabilities, ensuring risk assessments reflect the evolving threat landscape, and evidencing that AML/CFT/CPF controls are responsive to rapidly changing circumstances.



What Assessors Might Focus on in 2026

The UAE's forthcoming evaluation will proceed under the strengthened 5th round methodology. The FATF amended its assessment methodology in 2022 and commenced the 5th round of evaluations in 2024. The UAE's on-site visit is anticipated in June 2026, with the Plenary discussion expected in February 2027. The revised methodology introduces several significant changes: stricter standards for beneficial ownership verification and access, enhanced scrutiny of Virtual Asset Service Providers (**VASPs**) and technology-enabled financial crime risks, and expectations of real-time, risk-based supervision, including thematic inspections. Follow-up mechanisms have also been strengthened, with ongoing monitoring and periodic updates required between evaluation cycles. These changes mean assessors will examine whether risk-based controls function effectively and influence behaviour—placing emphasis on demonstrable outcomes rather than documented policies.

Assessors will seek concrete evidence that AML/CFT/CPF controls are functioning as intended. This includes documentation showing that suspicious transaction reports have led to internal escalations, law enforcement referrals, or account closures; evidence that customer risk assessments have triggered appropriate enhanced due diligence measures; and data showing how transaction monitoring alerts are investigated and resolved. Firms should also be prepared to demonstrate staff competence through training records and to evidence senior management oversight of the AML/CFT/CPF programme.

Looking Ahead

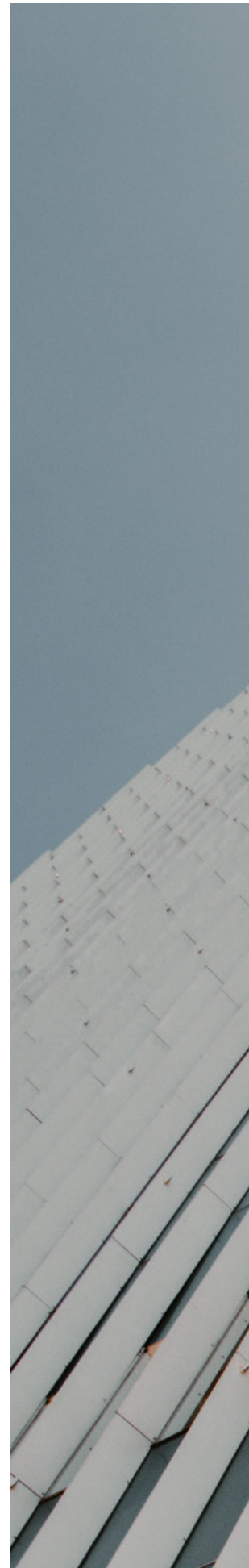
As the 2026 evaluation approaches, several clear patterns merit attention. The shift toward effectiveness-based assessment means documentary compliance alone will not suffice. Assessors will probe whether controls have produced measurable outcomes. Beneficial ownership transparency, virtual asset regulation, personal accountability for senior management, and cross-border cooperation will all face scrutiny. The sustained intensity of enforcement signals that regulators intend to maintain the elevated standards established during the grey list period as permanent features of the supervisory landscape.

Practical Implications for Firms

In light of the forthcoming evaluation and the current geopolitical environment, firms operating in or through the UAE should consider taking proactive steps across several areas.

Key areas for attention include:

- **Sanctions screening and implementation:** Firms should ensure that sanctions screening systems are calibrated to reflect the latest designations arising from the regional conflict, including secondary sanctions and sector-specific restrictions. Screening should extend to customers, counterparties, beneficial owners, and transaction parties, with documented procedures for escalation and reporting of potential matches.
- **AML/CFT/CPF systems and controls:** Firms should review and, where necessary, update their enterprise-wide risk assessments to reflect the current threat landscape, including risks associated with proliferation financing. Customer due diligence procedures should be enhanced for higher-risk relationships, and transaction monitoring scenarios should be reviewed to ensure they capture typologies associated with terrorism financing and sanctions evasion. Under the New AML Law, the scope of regulated activities has broadened and the threshold for establishing the principal offences has been lowered, meaning firms face increased exposure if controls are not demonstrably effective.
- **Evidence of effectiveness:** Assessors under the 5th round methodology will place particular emphasis on demonstrable outcomes. Firms should be prepared to evidence that suspicious transaction reports have led to internal escalations, law enforcement referrals, or account closures; that customer risk assessments have triggered appropriate enhanced due diligence measures; and that transaction monitoring alerts are investigated and resolved in a timely manner. Training records, board-level reporting, and management information relating to AML/CFT/CPF should be maintained in a form that can be presented to assessors or supervisors.
- **Governance and accountability:** The introduction of personal criminal liability for managers under Federal Decree-Law No. 10 of 2025 makes it essential that senior management can demonstrate active oversight of the AML/CFT/CPF programme. Board and senior management engagement with AML/CFT/CPF matters should be documented, compliance officer roles and responsibilities should be clearly defined and resourced, and firms should ensure that governance structures reflect the heightened expectations of both the new legislation and the forthcoming evaluation.





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