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DISPUTE RESOLUTION INSIGHTS

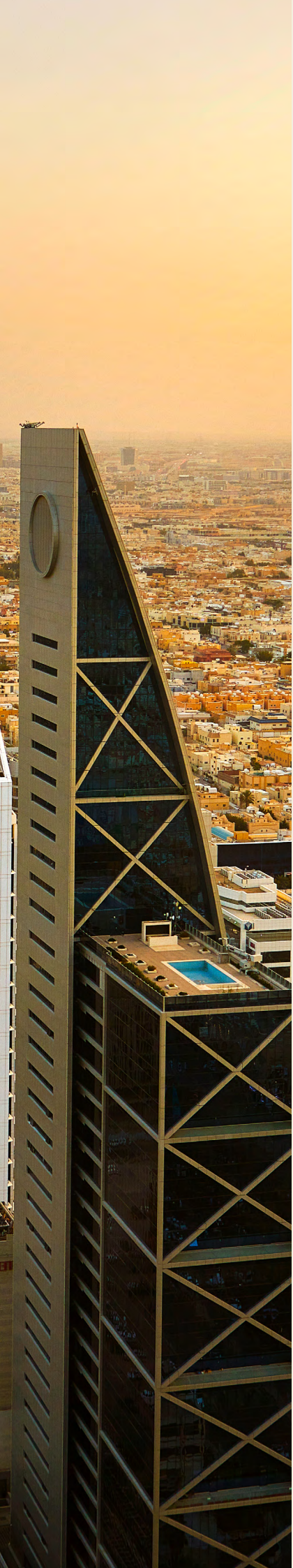
Insolvency Risk in the UAE:
A Practical Guide for Gulf Businesses

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Summary

Since 1 June 2026, Cabinet Decision No. 94 of 2026 has activated the Bankruptcy Law's emergency financial crisis provisions for applications filed from 28 February 2026 arising from the regional conflict. While the regime applies, the Bankruptcy Court must defer creditor applications to open proceedings. Debtor applications can (and are) still being brought.

The UAE has three insolvency regimes: onshore (federal), DIFC and ADGM. Each has different moratoriums, management rules and creditor remedies, so identifying the right one comes first.

Shipping disruption, fuel prices around 80% above pre-conflict levels and the first UAE interest rate rise since 2023 are squeezing cash flow across the region.

Insolvency risk must be managed actively, not only once a counterparty stops paying. Risk moves both up and down a supply chain. Every business should (i) detect the warning signs, (ii) assess its leverage, (iii) protect its position and (iv) respond proportionately.

In this edition we look at the practical steps businesses can and should be taking to prepare for and best protect themselves in the face of rising insolvency risk.

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INTRODUCTION

In the UAE, since June 2026, creditor applications to open restructuring or bankruptcy proceedings onshore have been on hold, although debtors can still file and are doing so. Creditors therefore cannot currently use the threat of insolvency proceedings to press for payment.

Insolvency risk must be managed actively, not only once a counterparty stops paying. A business can look healthy while rising costs and slow receipts erode its ability to pay its own suppliers. Decide early whether to monitor, support, intervene or exit: once security is called or proceedings begin, options narrow and others set the timetable.

UAE BANKRUPTCY AND INSOLVENCY FRAMEWORK

Three regimes, one threshold question

Onshore UAE companies fall under the federal Bankruptcy Law; DIFC and ADGM companies fall under their own insolvency laws and courts. Groups can straddle more than one regime, so before calling security or terminating, check which entity you contract with, where its assets sit, the governing law and what security you hold. The wrong step can be ineffective or forfeit rights.

Onshore UAE: Federal Decree-Law No. 51 of 2023

Federal Decree-Law No. 51 of 2023 on Financial Restructuring and Bankruptcy (the Bankruptcy Law) came into force on 1 May 2024, with implementing regulations in Cabinet Decision No. 94 of 2024 (issued 2 September 2024). It offers three procedures: preventive settlement and restructuring, in which the debtor stays in control under a stay on creditor action, and bankruptcy.

Three points matter most in practice:

- a) **contracts survive:** opening preventive settlement or restructuring does not by itself end a valid contract, and a counterparty cannot terminate on that ground alone;
- b) **direct payments and set-off are risky:** money owed to the debtor generally forms part of its estate, so paying its suppliers directly may not discharge your debt and may be challenged unless the contract, court or trustee permits it; and
- c) **creditor thresholds:** outside the emergency regime, an unsecured creditor may apply once at least AED 1 million (AED 10 million for regulated debtors) of undisputed, due debt remains unpaid 30 days after written notice. Cram-down is available only in restructuring and only if creditors receive no less than in bankruptcy.

The 2026 conflict-affected business regime

Cabinet Decision No. 94 of 2026, in force since 1 June 2026, activated Chapter Five (Articles 251–257) of the Bankruptcy Law for preventive settlement, restructuring and bankruptcy applications filed from 28 February 2026 that result from the current regional conflict with Iran. It remains in place until a further Cabinet decision. It applies only where the debtor proves that its distress was caused by the crisis.

The key effects of this emergency measure include:

- the Bankruptcy Court must defer creditor applications;
- asset-freezing orders are restricted;
- a debtor can seek up to 40 days to negotiate a settlement lasting up to 12 months, which binds all creditors if two-thirds by value of those taking part agree;
- directors are protected when using company funds to pay regular salaries; and
- new money can rank ahead of existing ordinary debt.

Commentators have noted that the wording leaves some doubt as to whether the postponement covers all creditor applications or only those against debtors affected by the conflict in the Gulf, so creditors should take advice before filing. Directors should also note that the regime eases, but does not remove, the need to consider restructuring options. Debtors relying on the regime should keep evidence tying their shortfall to the conflict; creditors agreeing standstills should reserve their rights in writing.

The DIFC and ADGM regimes

Both free zones have their own courts and insolvency rules, with different moratoriums and remedies.

DIFC (DIFC Insolvency Law No. 1 of 2019): the main rescue tool is rehabilitation, in which directors stay in control and propose a plan that needs approval by 75% in value of each creditor class and court sanction. An automatic 120-day moratorium bars enforcement, proceedings and set-off, and ipso facto termination clauses generally have no effect while it lasts.

ADGM (Insolvency Regulations 2015, as amended): the main rescue tool is administration, in which a licensed administrator takes over management under a moratorium, often leading to a Deed of Company Arrangement. Schemes of arrangement are also available.

HEIGHTENED INSOLVENCY RISK ARISING FROM THE MIDDLE EAST CONFLICT

Current market conditions in the Gulf have raised insolvency risk. The regional conflict has driven up fuel, freight and financing costs and disrupted supply chains, and it was the economic impact of the Middle East conflict that led the UAE Cabinet to activate the emergency insolvency regime under Cabinet Decision No. 94 of 2026 (as explained above). The indicators below show where that pressure is building.

Shipping and Transport disruption

The Strait of Hormuz has been effectively closed since March 2026, while traffic through the Red Sea and Bab el-Mandeb has been increasingly disrupted. Rerouting via the Cape of Good Hope adds roughly 10–14 days and increases freight and fuel costs, with cash tied up in goods in transit. War-risk cover (insurance for war-related losses) has been cancelled or repriced on affected routes. Parties should not base programmes or solvency forecasts on rapid normalisation; they should allow for longer transit times, higher costs and possible insurance restrictions.

Energy volatility is feeding through the project economy. Brent (the benchmark North Sea crude oil price) traded above USD 126 per barrel in April, averaged about USD 91 in August and reached nearly USD 110 in September 2026. Qatar's liquefied natural gas (LNG) force majeure continued into early November. These conditions increase project costs and make demand harder to predict, putting further pressure on margins and cash flow.

Air connectivity is a separate operational risk. An international airline's suspension of flights can delay specialist personnel, urgent spares and inspections even where cargo routes remain available.

From delay to insolvency

For any business, delay can turn into insolvency. Goods may arrive late or cost more, and if fixed prices prevent recovery of fuel, freight and insurance costs, eroding margins become a cash shortfall.

Late payment then cascades down the chain. Suppliers shorten credit terms or stop supplying, while the business must keep paying wages and critical costs. Tighter credit can remove the working-capital facility needed to bridge the gap.

PRACTICAL STEPS FOR GULF BUSINESSES TO MANAGE COUNTERPARTY INSOLVENCY RISK

The same dynamics apply whether you are a contractor, supplier, distributor, lender, landlord or customer. A strong buyer that pays late can squeeze a mid-sized supplier, which in turn relies on smaller, thinner-margined suppliers of its own. Distress can also come from above: trouble at a parent company can hit funding, guarantees and management focus. Every business should know who it depends on, what rights it holds and when to act. Four steps provide a practical sequence.

a) Detect

Group-level distress is often the first sign. Credit downgrades, missed interest payments, the appointment of restructuring advisers or requests for emergency funding should trigger closer monitoring, even if your counterparty still pays on time.

Operational signs will usually then follow. For example, requests for earlier payment, longer credit or payment assurances, delayed wages, missed deliveries, falling quality or unexplained changes in reporting are all red flags that should not be ignored. We also recommend treating a request for early payment or relaxed terms as a funding request, not an administrative one.

Practically speaking, where a key counterparty shows strain, ask for a rolling 13-week cash-flow forecast. No single sign proves insolvency, but a changed pattern should prompt a documented review. A simple traffic-light system helps:

- **Amber:** minor payment or reporting delays, isolated supplier complaints, a parent credit event or a well-evidenced request for temporary payment relief.
- **Red:** formal insolvency of a parent, material arrears, repeated supply stoppages, key-staff departures, inability to renew bonds, guarantees or insurance, or a forecast showing an unfunded gap.
- **Black:** an insolvency filing by the counterparty, cessation of trading, loss of critical licences or insurance, or inability to pay wages and essential suppliers.

We also recommend agreeing in advance what information, decision-maker and response time each level triggers: weekly reporting at amber, a cross-functional team and contingency sourcing at red, and active intervention or exit planning at black.

b) Assess leverage

It is also prudent to map your key contracts (customer, supply, distribution, financing, lease, joint venture and guarantee) and record the termination, change-of-control, cross-default, suspension, set-off and notice rights in each, with their triggers and deadlines. This shows what leverage you have before distress narrows it.

Other practical steps include:

- Check that any security you hold (bonds, guarantees, letters of credit, retention) names the right entity, covers current obligations and will not expire before you need it. A guarantee from a distressed parent may add little, and a conditional instrument may need evidence you cannot produce quickly. Extend or upgrade security while you still have leverage.
- Map critical supply routes and single points of failure, including dependence on the Strait of Hormuz, the Red Sea and Bab el-Mandeb, and look beyond direct suppliers: a supplier may itself rely on a single manufacturer or route. Identify alternatives, lead times and costs.
- Rank counterparties by how badly and how quickly their failure would hurt you, and assess the most critical using aged payables, covenant headroom, tax or wage arrears, judgments and reliance on shareholder support. Compare formal reports with what your operational teams see.

c) Protect the position

To protect your position, we recommend that you:

- Review force majeure, hardship, change-in-law, price-adjustment, suspension and termination provisions, including notice requirements.
- Keep contemporaneous records of the disruption and your response, including correspondence, shipping logs, cost data and the alternatives you considered, so your evidence explains both the event and what you did about it.
- Where you hold cash retention, swapping it for a bond or guarantee can ease a counterparty's cash flow without weakening your protection, provided you check the wording, issuer and expiry date first.
- Before paying a counterparty's suppliers directly, confirm the amount due, obtain acknowledgements, preserve set-off rights and avoid paying twice. Onshore, payments made within six months before the cessation-of-payment date (two years for related parties) can be clawed back, and the court can backdate that date by up to two years.
- Review your insurance (war-risk, political-risk, cargo, trade credit and property) as one programme. Confirm territorial limits, notification requirements and exclusions for war, sanctions, delay and insolvency, and check whether rerouting remains covered.
- Be ready for a dispute before default. Emergency arbitration, interim injunctions or preservation orders may be needed quickly, so identify the evidence, decision-maker and enforcement route before assets or cash move. A ceasefire will not automatically end force majeure effects, so update notices as conditions change without giving up rights too early.

We also flag that on Abu Dhabi government-related contracts, Executive Council Circular No. 1 of 2019 requires government bodies and companies to pay contractors within 30 days of invoice, and contractors to pay their subcontractors within 30 days of being paid, which limits pay-when-paid clauses.



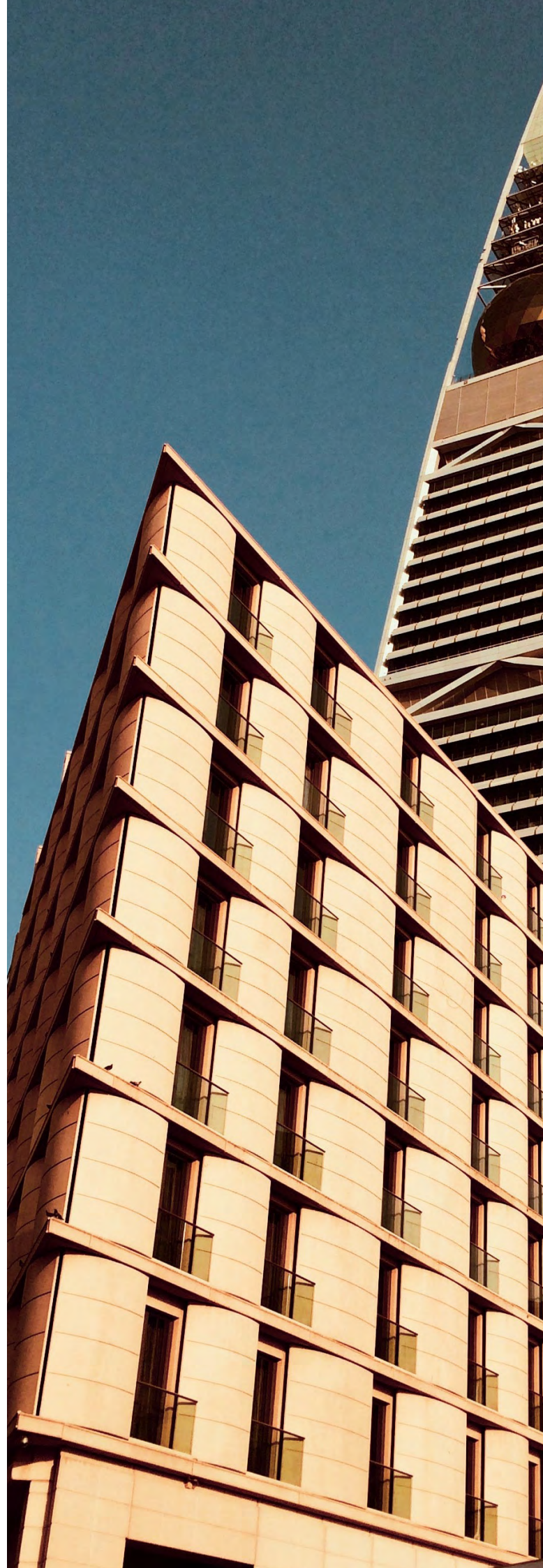
KEY TAKEAWAYS AND HOW WE CAN HELP

Key takeaways

- While the emergency regime applies in the UAE, creditors cannot open insolvency proceedings onshore, although debtors can. Contract rights, security and early monitoring are the main protection.
- Identify the applicable regime early by confirming which entity signs the contract, owns the assets and gives the security: that determines the procedures and remedies available onshore, in the DIFC and in the ADGM.
- Treat falling margins, late payment and rising costs at your counterparties as early warning signs, and act before a margin problem becomes a liquidity shortfall.
- Monitor the whole supply chain, including parent-company events and supplier behaviour, which often signal distress before it shows in the accounts.
- Review change-of-control, set-off, direct-payment, retention and security rights in your key contracts, and fix gaps or renew expiring protection while cooperation remains possible.
- Use a graduated response plan and confirm each step is permitted under the applicable regime. Termination should always be a deliberate decision, not an instinctive reaction.

How we can help

Our Middle East disputes team helps businesses across the Gulf, including contractors, suppliers, employers, sponsors, lenders and investors, to assess and manage counterparty distress. We combine legal and financial analysis to show how each option affects cash flow, recoveries and outcomes. We design early-warning protocols, review contracts and security, prepare notice and claims strategies, model support or exit options and run urgent proceedings and restructuring negotiations.





Related publications:

[International Arbitration in the Middle East: Rule Reforms, Institutional Growth and the Rise of a Global Hub](#)

In this article, we examine three significant recent developments shaping the Middle East's rapidly maturing international arbitration landscape: the entry into force of the 2026 ICC Arbitration Rules (the **2026 Rules**), proposed amendments to the DIFC Arbitration Law, and a June 2026 country report published by the Saudi Centre for Commercial Arbitration (the **SCCA**).

[Article 1006 of the UAE's New Civil Code: Implications for Creditors enforcing guarantees](#)

In this article we assess new Article 1006 in the New Civil Code, which is relevant to banks, financial institutions, and other creditors that rely on personal guarantees as security.

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[The UAE's new Civil Code: key changes and its practical application](#)

In this article, we examine the key reforms introduced by the UAE's new Civil Code, which entered into force on 1 June 2026, and the practical implications of these developments for businesses operating in the UAE.

[International arbitration in 2026: 5 themes for turbulent times](#)

In this article, we look back on 5 trends which were a focus for us in 2025. We also again anticipate the themes likely to drive disputes in 2026.

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