

DIFC END OF SERVICE GRATUITY BENEFIT TO BE REPLACED

02 March 2020 | Dubai

Legal Briefings - By **Stuart Paterson, Benjamin Hopps and Janine Mallis**

As we recently published [here](#), the Dubai International Financial Centre ("**DIFC**") has announced plans to replace its end of service gratuity ("**ESG**") scheme with a defined contribution scheme known as the DIFC Employee Workplace Savings ("**DEWS**") Trust scheme, which is set to come into force from 1 January 2020.

The DIFC is a prominent economic free zone in Dubai which is regulated by its own common law system and independent courts. In line with the majority of Middle Eastern jurisdictions (including onshore UAE), the DIFC currently implements the defined-benefit ESG scheme, whereby employers are required to pay a sum of money to employees upon termination of employment, calculated in accordance with a mechanism stipulated by law and provided that the employee meets certain conditions set out in the law.

The DIFC is now proposing to replace the ESG scheme and introduce what we currently understand will be a trust-based savings vehicle to handle contributions, invest monies and pay benefits. This is intended to bring the DIFC in line with international global best practice.

Under the proposed regime, all DIFC employers and employees will be required to participate in the DEWS scheme unless an employer operates a qualifying system of their own.

It is intended that employers will contribute funds into the plan on an ongoing basis. The contribution rate is set to be the same as the current gratuity accrual rate, but employees will be allowed to contribute additional funds out of their salary if they wish.

Employees will also be able to pick how their contributions are invested, choosing between low, medium and high-risk options. When leaving the DIFC, employees will then receive both ESG for service up until the date of the proposed change as well as the benefit from the new scheme. It is proposed that employees can choose whether to cash out the fund or hold it without any new contributions.

The trust will have an independent trustee and administrator, who will be regulated by the DIFC's financial regulator, the Dubai Financial Services Authority ("**DFSA**").

The new DIFC Employment Law was signed into law by His Highness Sheikh Mohammad Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, in his capacity as Ruler of Dubai. This law amends the existing law in a number of key respects, and in relation to ESG, makes provision for the DEWS scheme.

It is now anticipated that the legal framework for establishing DEWS will be completed this summer with the appointment of the trustee and administrator shortly afterwards. It is anticipated that the trustee and administrator will contact DIFC employers in relation to the transition process shortly thereafter.

It is expected (although unconfirmed) that the UAE will make similar reforms to its employment laws in the near future.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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