The Seven-Day Trap: Dubai Courts Impose Strict Liability on Non-Debtor Third Parties – A Comparative Warning for Global Crypto Exchanges

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Introduction: The Historical Opacity of Onshore Asset Tracing

In traditional commercial disputes, pre-execution asset tracing in onshore jurisdictions has long been hindered by structural opacity. Outside of public shareholding disclosures, corporate registries for mainland and free zone limited liability companies do not publicly disclose banking relationships, intercompany receivables, or granular asset holdings. Strictly enforced banking secrecy laws prevent judgment creditors from independently identifying where a debtor holds accounts or receivables prior to opening an execution file. Consequently, creditors historically relied on broad, court-driven inquiries routed through the UAE Central Bank, land departments, and licensing authorities, rarely possessing independent proof of assets held by private non-bank third parties.

Faced with these onshore hurdles, creditors navigating complex fraud or asset recovery cases frequently looked toward the Dubai International Financial Centre (DIFC) Courts. In that offshore jurisdiction, common law tools like *Norwich Pharmacal* and *Bankers Trust* disclosure orders are readily available and historically favored. These orders are highly effective

largely because they carry the severe and coercive threat of contempt of court proceedings for non-compliance.

However, a profound shift in UAE mainland jurisprudence has fundamentally altered the asset recovery paradigm. The Dubai Court of Cassation, in a series of recent landmark judgments, including Cassation No. 1665/2025 and combined appeals No. 1773 & 1826 of 2025, has established a stringent interpretation of the UAE Civil Procedures Law. The newly affirmed standard is absolute: non-debtor third parties ordered to disclose a debtor's assets who fail to formally respond within exactly **seven days** can be held personally and directly liable for the entirety of the original judgment debt.

While this use of disclosure orders provides a powerful theoretical tool for creditors, it creates a formidable compliance challenge for third parties. This is particularly true for cryptocurrency exchanges and Virtual Asset Service Providers (VASPs) operating in the UAE, whose operations could face severe financial exposure under these newly established procedures.

The UAE Framework: From Procedural Default to Substantive Liability

The recent Dubai Court of Cassation judgments clarify the strict application of Articles 255, 256, and 259 of the UAE Civil Procedures Law (Federal Decree-Law No. 42 of 2022).

Under these procedures, when a creditor executes a judgment, the execution judge can issue a garnishee or attachment order directing a third party to disclose any funds or assets it holds belonging to the debtor. Under Article 256, the third party has exactly seven days from the date of notification to formally declare what it holds. Crucially, the law explicitly dictates that a third party is *not exempt* from the duty to report even if they do not hold any assets for the judgment

debtor; they must still formally submit a negative declaration.

As affirmed by the General Assembly of the Dubai Court of Cassation (Decision No. 10 of 2025) and applied in the recent Cassation judgments, if the third party ignores the notice, refuses to accept it, provides insufficient information, or conceals documents, their inaction constitutes a severe procedural fault. Under Article 259, this procedural failure allows the creditor to file a substantive civil claim directly against the third party.

The Court of Cassation decisively clarified that this is not a mere execution dispute under the purview of an execution judge. Instead, the failure to submit the report transforms the execution claim into a direct, personal, and substantive civil lawsuit against the third party for the full value of the original debt. By missing the court's deadline, the third party effectively assumes the debtor's liability.

The Virtual Asset Context: Transparency Meets Strict Liability

This development is of acute importance to the digital asset sector. While a debtor could traditionally hide fiat currency or private shares behind structural opacity, cryptocurrency fundamentally changes the investigative reality. Because blockchains function as public ledgers, forensic investigators can trace diverted funds directly to deposit wallets hosted by centralized cryptocurrency exchanges.

Armed with a blockchain tracing report, a creditor could bypass the reliance on broad Central Bank inquiries and present independent proof of digital asset locations directly to a UAE execution judge. Under the newly established procedures, a creditor could then obtain a targeted disclosure and attachment order against the local offices of a global crypto exchange. This potentiality presents significant operational and legal risks for international VASPs,

particularly where internal compliance protocols are modeled on the more extended response timelines typical of other jurisdictions:

Jurisdictional Friction (ADGM/DIFC vs. Onshore Dubai): Many crypto exchanges operating in the UAE are licensed within financial free zones, such as the Abu Dhabi Global Market (ADGM) or the DIFC. If an onshore Dubai Court execution order is served on a free-zone domiciled entity, there may be a legal question regarding whether the mainland execution judge holds direct jurisdiction over the offshore-licensed entity. Even if the mainland court lacks jurisdiction, under the new Cassation precedent, a failure to formally submit this jurisdictional defense to the ordering court within the seven-day window could allow the creditor to invoke Article 259 and pursue the local exchange for the entire crypto-traced debt.

Fragmented Corporate Structuring (The Sister Entity Defense): Global crypto exchanges frequently utilize highly fragmented corporate structures. A localized UAE entity might operate solely as a marketing, support, or advisory branch, while the actual user wallets, customer funds, and private keys are custodied by a sister entity in another jurisdiction. If a mainland court's seven-day disclosure notice is received by the local branch, the fact that the UAE entity does not technically hold the funds does not negate the reporting obligation. Under Article 256, the entity must still formally reply to the execution court, detailing its corporate structure and clarifying its non-custodial status. Failing to legally articulate this reality within the tight statutory timeframe could result in the onshore entity absorbing the debtor's financial liability.

A Striking Divergence: Comparing Global Crypto Hubs

To fully appreciate the gravity of the UAE's approach, it is vital to contrast it with how third-party disclosure is enforced in other major jurisdictions favored by the crypto

industry.

United Kingdom, Singapore, Hong Kong & DIFC (The Contempt Paradigm): In traditional common law hubs, tracing digital assets typically relies on *Norwich Pharmacal* Orders (NPOs) or *Bankers Trust* Orders (BTOs). Courts in the UK (e.g., *Fetch.ai Ltd v Persons Unknown*), Singapore (e.g., *CLM v CLN*), and Hong Kong routinely issue these orders to major VASPs. If an exchange fails to comply, much like in the offshore DIFC Courts, the remedy is typically **Contempt of Court**. While contempt is highly coercive, risking asset sequestration, heavy fines, or the committal of corporate directors, it does not automatically mutate the underlying commercial debt onto the exchange's balance sheet simply for a missed administrative deadline. Historically, DIFC disclosure orders have been favored because this threat of penal sanctions ensures swift compliance, but they operate fundamentally differently from the UAE mainland's strict financial liability mechanism.

United States (The Garnishment Default Parallel): Interestingly, the UAE's Article 259 mirrors some of the strictest elements of US post-judgment enforcement. Under US Federal Rule of Civil Procedure 69, which defers to state law for execution, creditors may serve writs of garnishment on banks and VASPs. In certain strict state jurisdictions, if a garnishee fails to file a timely answer, the court may enter a default judgment against the garnishee for the *full amount of the underlying judgment*, regardless of how much crypto the exchange actually held. The UAE Court of Cassation has effectively solidified this similarly unforgiving standard onshore.

Conclusion

The Dubai Court of Cassation has sent a definitive message: mainland disclosure orders are strict legal mandates bounded by rigid statutory deadlines. While common law crypto hubs

rely on the coercive power of contempt to enforce third-party disclosure, the UAE mainland leverages the threat of immediate, substantive financial liability.

For crypto exchanges, financial institutions, and major commercial entities operating in the UAE, internal compliance protocols must be urgently reviewed to account for what could occur under these newly established procedures. Any notification from a UAE court regarding a third-party attachment should trigger an immediate, formal legal response. The seven-day clock is absolute. Jurisdictional objections, corporate veil defenses, or factual denials must be actively pleaded before the Execution Judge within this critical window. In the modern landscape of UAE litigation, a failure to respond is no longer just a procedural misstep, it could act as a total assumption of liability.

We invite corporate leadership, in-house counsel, and VASP compliance departments to engage with our specialist dispute resolution team at Wasel & Wasel to audit, strengthen, and, where necessary, systematically defend their positions in this exacting regulatory environment.

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