



## Annual Report 2006

Article 11 of the Dubai International Financial Centre (DIFC) Regulatory Law (DIFC Law No 1 of 2004) requires the Dubai Financial Services Authority (DFSA) to provide the President of the DIFC with a written report on the exercise of its powers, performance of its functions and financial activities. The report is to be prepared and provided as soon as reasonably practical in each financial year and to relate to the previous financial year. This is the DFSA's third annual report. It relates to the financial year ended 31 December 2006.

Log on to [www.dfsa.ae](http://www.dfsa.ae) for more information about the DFSA.



The Dubai Financial Services Authority is the integrated regulator of all financial and ancillary services conducted in or from the Dubai International Financial Centre, a purpose-built financial free zone in Dubai. The Dubai Financial Services Authority is created by statute and is an independent entity within the Dubai International Financial Centre.

# THE DFSA

## VISION

- to be an internationally respected regulator and a role model for financial services regulation in the Middle East.

## MISSION

- to develop, administer and enforce world class regulation of financial services within the DIFC.

## REGULATORY APPROACH

- to be risk-based and to avoid unnecessary regulatory burden.

## VALUES

- to expect high standards of ethical conduct and integrity from the DFSA and its people;
- to demonstrate professionalism, independence, efficiency, leadership and resolve in the discharge of our responsibilities; and
- to ensure administrative fairness, consultative process, accessibility, impartiality and accountability in the performance of our functions.

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## KEY MILESTONES IN 2006

### POLICY AND LEGISLATION

- DFSA introduced a regulatory regime for Collective Investment Funds, Investment Trusts and Real Estate Investment Trusts (REITs) including risk-based regulation of Hedge Funds
- DFSA announced a major Islamic initiative with the Malaysian Securities Commission to remove regulatory barriers to Islamic Finance transactions between the DIFC and Malaysia
- DFSA introduced a regulatory regime for Trust Service Providers
- DFSA streamlined the regime for Ancillary Service Providers and Licenced Representatives
- DFSA introduced a risk-based registration regime for Auditors of regulated entities
- DFSA reduced post listing sponsorship requirements.

### INTERNATIONAL RELATIONS AND ENFORCEMENT

- DFSA became a signatory to the International Organisation of Securities Commissions (IOSCO) MMoU - a GCC first
- DFSA signed 9 bilateral MoUs with regional and international regulatory counterparts
- DFSA assisted the Japanese Financial Regulator to close an investment scam
- DFSA accepted an enforceable undertaking and obtained a court injunction from companies and individuals falsely representing regulatory status.

### RECOGNITION AND AWARDS

- DFSA was awarded the "Best Government Initiative of the Year" by the Society of Trust and Estate Practitioners (STEP) for development of the DIFC Trust Law
- DFSA was awarded "Regulator Initiative of the Year" by Policy Middle East Insurance for excellence in the region's insurance industry
- DFSA was appointed a Member of the International Association of Insurance Supervisors Technical Committee. DFSA was chosen to host the 2010 International Association of Insurance Supervisors annual conference
- DFSA Enforcement Division was awarded 2 trophies, one from Dubai Police Academy and one from the Department of State Security, Dubai Police.



## **GROWTH**

- DFSA licenced 125 entities by 2006 year end
- DFSA recognised the New York Mercantile Exchange Inc. (NYMEX) and Commodity Exchange Inc. (COMEX)
- DFSA expanded its staff to 99 employees.

## **EDUCATION AND COMMUNITY OUTREACH**

- DFSA launched "Tomorrow's Regulatory Leaders Program" (TRL) for UAE nationals
- DFSA signed an MoU with the Public Prosecution - Dubai, held joint training seminars with the Dubai Police Academy and the Emirates Securities and Commodities Authority (ESCA) on Combating Financial Crime. Two senior Dubai Police officials were seconded to the DFSA's Enforcement Division
- DFSA hosted training for Members of IOSCO's African and Middle East Committee
- DFSA participated in Financial Services Volunteer Corps (FSVC) initiatives.

## STATEMENT BY THE CHAIRMAN DR. HABIB AL MULLA



2006 has been a year of great change. Global restructuring is gathering pace with an enlarged Europe creating a single market in trade and financial services, while India and China continue to demonstrate their potential as engines of growth.

Dubai has continued to take full advantage of its position as a rapidly growing 'trading hub' while developing its position as a centre for institutional finance, creating a new reality born out of the clear vision of H.H. Sheikh Mohammed bin Rashid Al Maktoum. That vision, to create a world class financial centre and the regional gateway for capital and investment to the Middle East, is being progressively realised. Dubai as an international financial centre is positioned well, creating a new time-zone between Asia and Europe. Dubai has launched a comprehensive plan and is creating wealth and transforming itself into a modern cluster economy and tourist location. It is a timely intervention as the Gulf has emerged as a major source of finance.

As a new financial free zone, the Dubai International Financial Centre (the Centre) has further changed and developed the UAE landscape and it has grown dramatically during 2006. The Centre has laid a solid foundation for regional financial market development which is central to Dubai's ambition and its vision and continues to respond to the interest shown and needs of a vast array of issuers, investors and capital market and financial intermediaries. Many have been licenced to conduct business in the Centre and many more are knocking on the door.

As an international financial centre, the DIFC approach is based on strong regulation, drawing on experienced international and regional regulators. The regulation of an international market requires a novel approach; it requires skills and experience not normally available in the region and it requires modern laws and measures based on best practice. Strong regulation is regarded as a critical success factor by all.

My statement describes this rapidly changing business environment to explain the tremendous efforts of Board Members and Committees. The DFSA relies on their collective experience in approving high quality and timely regulatory policy and rules which give effect to legislation put forward to the Ruler for enactment. The Collective Investment Law enacted in April and the Trust Law enacted in September are two examples of this commitment.

As a strong and experienced regulator, the DFSA remains responsive to changes at the international level and within the Centre. As a strong and experienced regulator, the DFSA supports the aim of fostering the development of the Centre as an internationally respected financial centre; and as a strong and experienced regulator, the DFSA continues to extend its reach, forging positive relationships with other regulators and standards bodies.

The DFSA Board has had a very busy year and alongside the Committees, Members have worked tirelessly to ensure that the DFSA is a strong regulator with laws and rules conforming to international best practice. As Chairman, I commend all of my colleagues

for their efforts and continued enthusiasm to maintain our thrust as a world class regulator. It would be naïve to create the impression that work is complete; we have much to do. As the regulator of an international financial market, we must strive to maintain efficiency while implementing our regulatory approach: to be risk-based and to avoid unnecessary regulatory burden. The DFSA is no longer a new regulator; the DIFC is no longer a new market.

The message of David Knott, DFSA's Chief Executive describes the tremendous progress made during 2006 and I commend him and his executives for their efforts and hard work.

2006 has been a year of great change, one which has heralded in a new era for the DIFC. As a world class regulator, the DFSA continues to fulfil its mandate and to promote understanding of that mandate nationally, regionally and internationally.



Dr. Habib Al Mulla  
Chairman

# STATEMENT BY THE CHIEF EXECUTIVE DAVID KNOTT



The opening pages to this report set out Statements of Vision, Mission, Regulatory Approach and Values that were adopted by the DFSA in 2006. Each of these Statements has played a part in guiding our work over the past 12 months.

## OUR VISION

The DFSA is the first financial services regulator established in the Middle East with a commitment to the full application of internationally recognised regulatory standards. The success of the DIFC as a centre for capital markets in the region is largely dependent upon international acceptance that the DFSA is competent to deliver that commitment with independence and integrity. By building that acceptance, we will not only serve the interests of the DIFC but also our aspiration to be a role model for financial services regulation in the Middle East.

We have therefore, expanded our program of active engagement with international agencies, governments, regulators and private sector firms. Of special significance, we have become a signatory to IOSCO's Multilateral Memorandum of Understanding on information sharing and co-operation - the first jurisdiction from the Gulf region to be accepted as a party to those arrangements. During 2006 we also concluded a further 9 bilateral MOUs with selected banking, insurance or securities regulators, taking the total number of such arrangements to 17. Importantly, we have forged new relationships with regional regulators and in several cases provided training and other assistance to them. We have also stepped up our participation in the work of international standard setters, including appointment as a member of the Technical Committee of the IAIS. On the Islamic Finance front, we are a member and strong supporter of the Islamic Financial Services Board (IFSB).

To assure the future for high standard regulation in the Middle East, it is critical that adequate training and career opportunities be provided for nationals. In 2006, the DFSA introduced a graduate training program for Emiratis that is delivering intensive and specialist training by experienced international regulators over a 2 year rolling cycle. We have attracted some outstanding young people to this program who, together with successor intakes, will help secure our vision for sustainable quality regulation in the UAE.

## OUR MISSION

None of our regional and international engagements could succeed without clear demonstration of our commitment to the development, administration and enforcement of world class regulation. During 2006 we continued to make steady progress in delivering this mission within the DIFC. Two of our most important policy initiatives were the introduction of regulatory regimes for Collective Investment Funds and Real Estate Investment Trusts. Both initiatives incorporate international best practice in conformity with relevant IOSCO principles and guidance. We are the first jurisdiction in the region

to introduce a comprehensive Funds Management regime of this type and our initiatives have attracted considerable interest in other jurisdictions, particularly our approach to the regulation of Hedge Funds and Islamic Funds. We also finalised the DIFC's regulatory regime for the provision of Trust Services and the operation of Trust Law for which we received the "Best Government Initiative of the Year" award from the UK Society of Trust and Estate Practitioners. Our work in the insurance field was also recognised by Policy Middle East Insurance which awarded the DFSA the "Regulator Initiative of the Year" for excellence in the region's insurance industry.

As part of our commitment to international best practice we have completed comprehensive self assessments of the DFSA's compliance with regulatory standards and principles set by IOSCO, Basel, IAIS and FATF. We have released proposals for amendments to the DFSA Rulebook to further enhance that compliance and will participate in a Financial Sector Assessment Program (FSAP) of the UAE by the IMF and World Bank in early 2007.

During 2006, we authorised an additional 75 firms and 20 Ancillary Service Providers to operate within the DIFC, taking our total number of regulated entities to 125 by year end. We also recognised a number of international exchanges and member firms for the purposes of our Markets Law. We have been pleased by the quality of applicants seeking registration within the DIFC, which is now the Middle East's regional centre for some of the world's most successful financial institutions. Our Authorisation and Supervision processes are grounded upon the relevant principles and standards of IOSCO, BIS, IAIS and IFSB.

The third core component of our Mission is Enforcement. We recognise that high quality policy and administration will be undermined unless matched by a commitment to ensuring regulatory compliance. The DFSA has established close working relationships with law enforcement agencies in the UAE. We have entered into an MoU with the Dubai Attorney General who is responsible for the Public Prosecution, Dubai. We have worked together with this agency and the Dubai Police on several law enforcement issues, including the closure of two boiler room scams that were operating outside the DIFC. We have also provided specific assistance to international regulators in the UK, USA and Japan in relation to investigations undertaken in those jurisdictions. Within the DIFC, we have exercised a range of powers, from enforceable undertaking to injunctive proceedings, in order to protect the integrity of the Centre. We also oversee a rigorous anti-money laundering regime for Regulated Firms, supplementing their compliance with UAE Federal Laws.

## **OUR REGULATORY APPROACH**

In last year's annual report I discussed the DFSA's commitment to risk-based regulation and the elimination of unnecessary regulatory burden. During 2006 we have focused much of our business planning and operational process review towards imbedding

this approach in our Policy development and Supervision practices. We have also reconstituted our Board Audit and Finance Committee as an Audit and Risk Committee, elevating the focus on risk assessment and mitigation to our most senior governance level. In some cases we have discontinued regulatory requirements as a consequence of revised risk assessment. Examples include reducing the categories of service providers requiring registration under our Ancillary Service Providers regime, reduction in post-listing sponsorship requirements and limiting the licencing of a firm's representatives to certain key officers. All of our new policy formulation during the year, including our new funds management regime, was critically tested by risk-based analysis to ensure, to the best of our ability, that new regulatory and compliance obligations are fairly aligned to identified risks. We will continue this approach during 2007 and will progressively review all of our regulations from this perspective.

## OUR VALUES

Our Statement of Values sets out expectations of the personal and professional standards to which DFSA employees will adhere. The scope of these standards range far wider than expectations of ethical conduct, touching upon issues of independence, leadership, consultative process, accountability and several other values to which we have committed the agency. The Governance structure of the DFSA, including its decision making and appeals processes, are tailored in conformity with these values, which are further entrenched by Codes of Conduct for Board Members and employees. The independence of our regulatory functions and our assurance of adequate funding are both enshrined in Statute and are fully observed at operational level. Our commitment to industry consultation includes both the formal processes undertaken prior to adoption of new laws and regulations and, equally important, extensive consultation and dialogue with Authorised Firms in discharging our Supervision mandate. During 2006, we released 19 formal Consultation Papers for public comment and in several cases, were able to improve policy proposals by adopting industry feedback.

In conclusion, I wish to thank the Board and all of our staff (including the additional 41 employees who joined us last year) for making 2006 such an outstanding year for the DFSA. I also extend thanks to the Government of Dubai, the Governor of the DIFC and our colleagues at the DIFCA, all of whom have contributed to supporting our role as an effective and independent regulator of financial services within the Dubai International Financial Centre.



David Knott  
Chief Executive

## PART ONE - WHO WE ARE

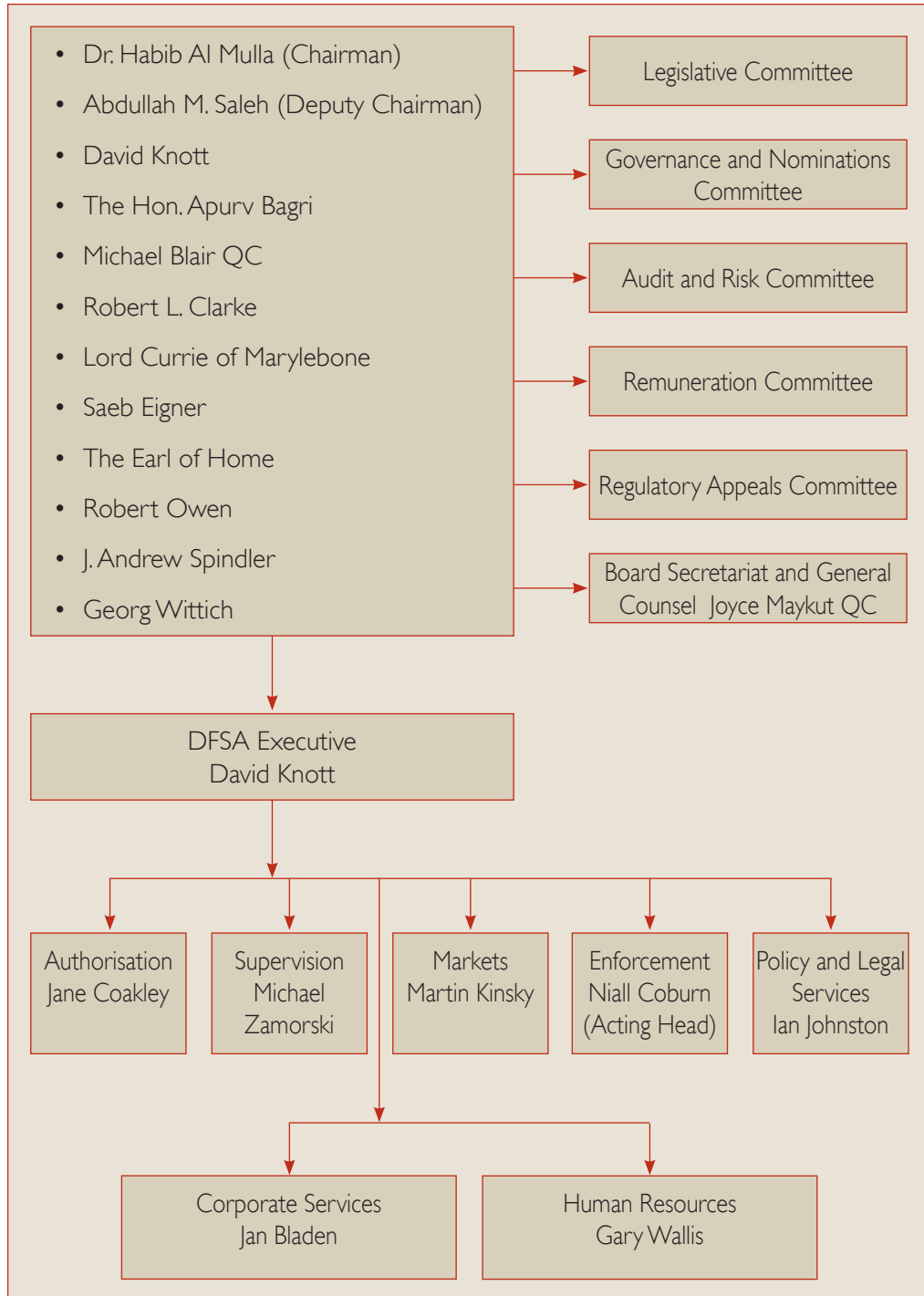
The DFSA is the sole independent regulator of all financial and ancillary services conducted in or from the DIFC. The DFSA's regulatory mandate covers asset management, banking, securities, futures and commodities trading, Islamic finance, insurance and an international financial exchange.

In discharging its regulatory mandate, the DFSA has a statutory obligation to pursue the following objectives:

- to foster and maintain fairness, transparency and efficiency in the financial services industry (namely, the financial services and related activities carried on) in the DIFC;
- to foster and maintain confidence in the financial services industry in the DIFC;
- to foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk;
- to prevent, detect and restrain conduct that causes or may cause damage to the reputation of the DIFC or the financial services industry in the DIFC, through appropriate means including the imposition of sanctions;
- to protect direct and indirect users and prospective users of the financial services industry in the DIFC;
- to promote public understanding of the regulation of the financial services industry in the DIFC; and
- to pursue any other objectives as the Ruler may, from time-to-time, set under DIFC Law.

The Regulatory Law 2004 provides that the DFSA shall comprise of the Chairman of the DFSA, the DFSA Board of Directors, the Regulatory Appeals Committee (RAC), the Financial Markets Tribunal (FMT), the Chief Executive and Members of his staff and other Committees, as may be duly appointed from time-to-time.

# THE DFSA GOVERNANCE MODEL



## THE BOARD OF DIRECTORS OF THE DFSA



**Dr. Al Mulla** is a distinguished lawyer and the Chairman of the DFSA. Dr. Al Mulla was the architect of the legal structure which led to the establishment of the DIFC as the first financial free zone in the UAE. That legal structure included a constitutional amendment, the enactment of a Federal and a Dubai law. He led the discussions with the Federal Government of the UAE which paved the way for the enactment of the Financial Free Zones Law and the establishment of the DIFC. Dr. Al Mulla was also the Chairman of the Legislative Committee of the DFSA. In this capacity, he led the preparation and the enactment of all laws regulating financial and related ancillary services conducted in or from the DIFC.

Dr. Al Mulla was a member of the UAE Federal National Council (2002-2005); Director, Institute of Advanced Legal and Judicial Studies (2000-2005); Chairman of the UAE Jurists Association (1994-1996). He is the Vice Chairman of the Board of Trustees of Dubai International Arbitration Centre, Member of the Board of Trustees of Dubai Ethics Resource Centre; Member of Economic Treaties and e-Commerce Committee of the Dubai Chamber of Commerce and Industry (DCCI), Member of the Panel of Experts of the Broadcasting and Publications Standards Tribunal of TECOM; Member of the Board of Trustees of e-TQM college; Member of the Advisory Board of the Business School of the American University in Dubai. He is also a member in various arbitration centres including the Dubai International Arbitration Centre, the China International Economic and Trade Arbitration Commission, London Court of International Arbitration, Korean Commercial Arbitration Board and the American Arbitration. Dr. Al Mulla is also the Managing Partner of Habib Al Mulla and Co., one of the most prominent law firms in the UAE.

Dr. Al Mulla holds an LLB in Shari'a and Law from the UAE University; LLM from Harvard Law School and a PhD from the University of Cambridge. He remains Fellow of the Chartered Institute of Arbitrators.



**Abdullah M. Saleh** is the Chairman of the National Bank of Dubai (NBD), having been one of its founders in 1963 and its Managing Director from 1982 until his retirement in January 2004. Mr. Saleh is a former adviser on financial matters to the Late Ruler of Dubai, H.H. Sheikh Rashid Bin Saeed Al Maktoum. Mr. Saleh served as an Arbitrator on the Paris-based High Board of the Euro-Arab Arbitration Centre, from 1988 to 2000. He is a Board Member of the DCCI and a Member of the DCCI Arbitration Committee. He has been a Member of the Board of Qatar Fuel Additives Company (QAFAC) since 1990 and has been Chairman of International Octane Limited (IOL) also since 1990. In 1979, he became a Founder Member of the Board of Dubai Cable Company (DUCAB) and served as a Chairman until 2001 - he continues to serve as a Member of the Board of Directors, representing the Government of Dubai. He is a Director and major shareholder of Dubai Transport Company LLC., (DUTCO) the holding company of the DUTCO Group of Companies.

He has been Chairman of MARSHINSCO (insurance brokers) since 1976. He was educated in Sharjah and London having attended the Institute of Bankers after completing his academic studies.



**David Knott** was appointed Chief Executive of the DFSA on 1 June 2005. Mr. Knott joined the DFSA from Australia where he held a number of senior regulatory positions. He served as Chairman of the Australian Securities and Investment Commission (ASIC) for a 3 year term until December 2003. Previous roles in prudential supervision included CEO of the Australian Financial Institutions Commission (AFIC) and COO of the Australian Prudential Regulation Authority (APRA). He also served as CEO of the Commonwealth Funds Management Limited (CFM) and oversaw its privatisation. He was a Board Member of the Australian Crime Commission, which has national responsibility for investigating organised crime.

During his Chairmanship of ASIC, Mr. Knott also chaired the Technical Committee of IOSCO and represented it on the Financial Stability Forum. In his earlier career Mr. Knott held a number of senior roles in law and investment banking.



**The Hon. Apurv Bagri** is the Managing Director of the Metdist Group of companies. He is a past Chairman of the International Wrought Copper Council which represents the global copper fabricating industry and a member of the Board of the Indo-British Partnership. He is Deputy Chairman of Governing Body of London Business School as well as Chairman of the School's Asia Board; a Member of the Governing Council of the City University, London and a visiting Professor at Cass Business School. He is a Member of the Advisory and Management Boards of the Royal Parks, a Trustee of the Royal Parks Foundation, Commissioner of the Crown Estate Paving Commission and a Trustee of Asia House. He is a Member of the NSPCC Stop Organised Abuse Board. He is the Chairman of TiE Inc., a global non-profit organisation that promotes entrepreneurship and wealth creation.

Mr. Bagri is an honours graduate in Business Administration from the Cass Business School in London. In March 2006 he was awarded an Honorary Degree of Doctor of Science from City University London.



**Michael Blair QC** specialises in financial services law and practice, having joined his Chambers in Gray's Inn, London in 2000. For 13 years before that he held successive senior positions in Regulation in the City of London, latterly as General Counsel to the Board of the Financial Services Authority. He is a Member of the Competition Appeal Tribunal and the President of the Guernsey Financial Services Tribunal. He has been elected to serve as the Deputy Treasurer of the Middle Temple, his Inn of Court in 2007, and will thus, be its Treasurer in 2008.

From 2000 to 2002 he was the Chairman of the 3 recognised self-regulating organisations for the UK financial services industry, Investment Management Regulatory Organisation (IMRO), Personal Investment Authority (PIA) and Securities and Futures Authority (SFA). He served on the Bar Council for 10 years, including 4 years as Treasurer from 1994 to 1998. He was given the award of Queen's Counsel (Honoris causa) in 1996 and is the author and editor of a number of leading textbooks on UK financial services law.



**Robert L. Clarke** has extensive experience with banking laws and regulations and bank supervision, both in the United States and internationally. Mr. Clarke founded the Financial Services Section at Bracewell and Giuliani, LLP in 1973. He was appointed by President Ronald Reagan as US Comptroller of the Currency and at the end of his first term was re-appointed by President George H. W. Bush. He served as Comptroller from 1985 to 1992 and during his tenure the agency supervised about 5,000 nationally chartered commercial banks. In March 1992 he re-joined Bracewell and Giuliani, LLP as Senior Partner and Head of its financial services practice. Mr. Clarke has served as a consultant to the World Bank and as Senior Advisor to the President of the National Bank of Poland, as well as advisor to a number of countries on their bank supervisory operations.

Mr. Clarke has an LLB from Harvard Law School and a Bachelor of Economics from Rice University.



**Lord Currie of Marylebone** has wide ranging experience in financial services, public administration and the education sector. In addition to serving on the Board of the DFSA, he is Chairman of the Office of Communication (OFCOM), the new converged UK regulator for electronic communications, and also Dean of City University's Cass Business School, in the City of London.

He was previously Deputy Dean at London Business School and a Non-Executive Director of the Abbey National, as well as serving on the Board of the Office of Gas and Electricity Markets (OFGEM), the UK energy regulator, and a variety of other Government bodies.

His academic research is in the area of regulation. In his earlier career he worked in financial services and he has extensive consulting experience at Board level with major financial institutions.



**Saeb Eigner** is the Founder, President and CEO of Lonworld, a private finance, property and investment group. He is a Governor of London Business School, Founding and Serving Chairman of its Middle East Regional Advisory Board. Formerly, a Senior Manager at ANZ Grindlays Bank PLC., in London, heading the Middle East and Indian Sub-Continent division of the Private Bank, which he left to found Lonworld in 1992.

He holds a Masters Degree in Business Administration and a Masters Degree in Management from London Business School. He is the co-author of the management book "Sand to Silicon". He holds and has held a number of Board appointments in the areas of banking, strategy, education and investment.



**The Earl of Home** was appointed a Director of the DFSA on 23 February 2005. He has been Chairman of Coutts and Co. since 1 June 1999 and became Chairman of Coutts Bank (Switzerland) Ltd., on 8 March 2000. He has wide experience of the banking sector and, having joined Morgan Grenfell in 1966, was appointed Director of Morgan Grenfell and Co. Ltd., (now Deutsche Securities Ltd.) in 1972. He assumed responsibility for the international division of the bank in 1983. He was then appointed to a number of other international positions at Morgan Grenfell, becoming a Director of Morgan Grenfell Group PLC., in 1996 and Chairman of Deutsche Morgan Grenfell Group PLC., in 1999. Lord Home has held a number of non-executive and public positions including Director of the Agricultural Mortgage Corporation PLC., between 1980 and 1993, Chairman of Man Ltd., President of the British Malaysian Society (appointed in 2001) and Chairman of the Committee for Middle East Trade (retiring in 1992). He is an active Member of the House of Lords and was a front bench spokesman on Trade, Industry and Finance until 1998. Lord Home was educated at Oxford University.



**Robert Owen** has wide-ranging experience as both a regulator and a market practitioner, with particular exposure to the Asia Pacific region. He established the Securities and Futures Commission (SFC) in Hong Kong and was appointed its Executive Chairman in 1989. Prior to this Mr. Owen was Director, Investment Banking, Lloyds Bank Group and Chairman and Chief Executive, Lloyds Merchant Bank. Earlier, he was a Director of Morgan Grenfell and Co., and served in the UK Treasury and Foreign Office. Since leaving the SFC, Mr. Owen has been Deputy Chairman of Nomura Asia Holdings Ltd., and Senior Adviser to Nomura International (Hong Kong) Ltd., Member of the Council and Regulatory Board of Lloyd's of London, Chairman of Crosby Ltd., Chairman of Techpacific Capital Ltd., Chairman of the International Securities Consultancy Ltd., Director of Sunday Communications Ltd., European Capital Co. Ltd. and various other companies and investment funds. He is also Chairman of IB Daiwa Ltd. (a company listed on the JASDAQ market in Tokyo), a Director of Singapore Exchange Ltd. and of Citibank (Hong Kong) Ltd. Mr. Owen was educated at Repton School and Oxford University.



**J. Andrew Spindler** is the President and CEO of the Financial Services Volunteer Corps (FSVC), a not-for-profit private-public partnership whose mission is to help build sound banking and financial systems in transition and emerging market countries. Prior to his appointment in 1993, Mr. Spindler served as a Senior Vice President at the Federal Reserve Bank of New York, where he headed the Banking Studies and Analysis Function and Payments System Studies staff. While at the New York Fed, he helped develop the risk-based capital framework that has been adopted by bank supervisory authorities in most of the world's financial centres. He served as the New York Fed's representative on the Basle Committee on Banking Supervision during 1991-93. Prior to joining the New York Fed in 1985, Mr. Spindler held several international lending and strategic planning positions at the Continental Illinois Bank. Mr. Spindler has a PhD and MPA from Princeton University's Woodrow Wilson School of Public and International Affairs and a Bachelor's Degree in International Politics from Harvard College.



**Georg Wittich** has extensive regulatory experience of financial markets in particular from a European perspective. He established the Bundesaufsichtsamt für den Wertpapierhandel (Federal Securities Supervisory Office) in Frankfurt and served as its President from 1994 to 2002. In 1998 Mr. Wittich was elected Chairman of the Forum of European Securities Commissions which played a key role to develop common standards for European capital markets. In IOSCO Mr. Wittich was Vice-Chair of the Technical Committee and Chairman of the Internet Project Team. Prior to this Mr. Wittich held various senior posts in the Federal Ministry of Finance in Germany in the area of international finance and securities markets and he was Financial Counsellor at the German Embassy in Tokyo (1983 to 1987). Mr. Wittich is a Member of the International Advisory Council of the China Securities Regulatory Commission. Mr. Wittich graduated with law degrees from the University of Kiel and undertook additional studies at the Ecole Nationale d'Administration in Paris.

# GOVERNANCE AND ETHICS

## THE DFSA BOARD

The DFSA is supervised by a Board of Directors and managed by an Executive. The governance structure of the DFSA is clearly defined in Dubai Law No. 9 of 2004 and the Regulatory Law, as are many of the requirements for good governance. Under the authority of the Regulatory Law, the DFSA Board has adopted a Constitution, which among other things provides for the operation and good governance of the Board and its Committees.

In accordance with principles of good corporate governance, all Directors are expected to bring an independent judgment to bear on issues of strategy, performance, resources, standards of conduct and key appointments.

The Board is in effect, the mobilisation of an internationally renowned group of premiere tier experts focused on delivering effective regulation and fulfilling the statutory obligations of the DFSA. Their presence and active involvement in the governance of the DFSA further promotes the DFSA as a role model for financial services regulation, based on international best practice and drawing on internationally recognised regulatory and industry experience.

## POWERS AND FUNCTIONS OF THE BOARD

The powers and functions of the Board under the Regulatory Law are to:

- ensure that the DFSA exercises its statutory powers and performs its statutory functions in accordance with its objectives;
- make policies relating to the regulation of financial services and related activities;
- make provision for the consideration of adjudication on and the application of penalties in relation to disciplinary and other matters;
- review the performance of the Chief Executive;
- give the Chief Executive directions;
- arrange for the DFSA to enter into co-operation arrangements with other regulators;
- review draft laws and recommend them to the President of the DIFC;
- review and make Rules;
- review and issue standards and codes of practice; and
- make submissions to the President in relation to legislative matters outside the scope of its own legislative powers.

In exercising its general oversight of the DFSA's operations, the Board's role includes:

- making strategic decisions affecting the future operation of the DFSA;
- setting appropriate policies to manage risks to the DFSA's operations and the achievement of its objectives and seeking regular assurance that internal controls are managing risks, in accordance with these policies;
- maintaining a sound system of financial control; and
- providing an accountability mechanism for decisions of Committees of the Board through periodic reporting.

All DFSA Board Directors are appointed by His Highness Sheikh Mohammed bin Rashid Al Maktoum, President of the DIFC for 3 year terms. In addition, all Directors have entered into a service agreement with the DFSA which details terms of appointment, duties, remuneration and expenses, confidentiality, conflicts of interest, term and termination, and indemnities.

The Board currently consists of 12 Directors and all but the Chief Executive are independent Non-Executive Directors. There have been no changes to the Board of Directors during the 12 months from 1 January 2006 to 31 December 2006.

The Board is supported by Joyce Maykut QC, acting as Secretary to the Board of Directors and General Counsel. Her biography is included on page 26. The Board Secretariat manages and co-ordinates all corporate secretary functions for the Board and each of its Committees.

The DFSA has comprehensive Directors and Officers liability insurance cover which the Board considers adequate and appropriate. The policy excludes cover in the event a Board Director is proven to have acted fraudulently and dishonestly.

The Board, as required under the Regulatory Law, has appointed a Regulatory Appeals Committee and a Financial Markets Tribunal. The functions of these bodies are outlined on pages 21 and 23 respectively.

In addition to the Committees required by statute, the Board has established 4 Committees to assist it in discharging its functions. These are the Legislative Committee, Governance and Nominations Committee, Audit and Risk Committee (formerly the Finance and Audit Committee) and the Remuneration Committee. See pages 19 - 22.

These Committees form a solid platform for good governance, efficiency and redress.

Some Committees include Members who are not Members of the Board, while the Chairman of the DFSA Board is an ex-officio Member of all Board Committees, except the Audit and Risk Committee and the Regulatory Appeals Committee.

Memberships of the Board's Committees, with a brief summary of each Committee's functions, are set out on pages 19 - 25.

The following schedule shows Board Member attendance at meetings during the year, with attendance (either in person or by teleconference) shown as a proportion of the numbers of meetings individual Board Members were eligible to attend.

	Board	Finance and Audit Committee	Governance Nominations Committee	Legislative Committee	Remuneration Committee
Dr. Habib Al Mulla	6/6				
Abdullah M. Saleh	5/6	4/5			
David Knott	5/6	4/5	5/7	10/12	4/5
The Hon. Apurv Bagri	6/6	5/5	7/7		5/5
Michael Blair QC	6/6			12/12	
Robert L. Clarke	6/6			12/12	
Lord Currie of Marylebone	6/6		7/7		5/5
Saab Eigner	6/6	5/5	7/7		5/5
The Earl of Home	6/6	4/5	5/7		
Robert Owen	6/6			12/12	5/5
J. Andrew Spindler	6/6	5/5	7/7		5/5
Georg Wittich	6/6			12/12	

## DFSA VALUES AND ETHICS

Committed to regulating to the highest international standards, the DFSA has adopted values to guide its own operations:

- we expect high standards of ethical conduct and integrity from the DFSA and its people;
- we demonstrate professionalism, independence, efficiency, leadership and resolve in the discharge of our responsibilities; and
- we ensure administrative fairness, consultative process, accessibility, impartiality and accountability in the performance of our functions.

The DFSA Values reflect the core DIFC operating principles of Integrity, Transparency and Efficiency. The DFSA Values are firmly embedded in the DFSA's Rules and Procedures and incorporated in the DFSA Code of Values and Ethics for employees. The Code sets appropriate international best practice standards, in relation to the use of regulatory

information, conflicts of interest and the giving and receiving of gifts and benefits. It is designed to complement the conflict of interest and confidentiality provisions in the Regulatory Law.

Under the Code, employees and consultants:

- must declare on an annual basis their financial interests and those of their close associates;
- must provide notification of any conflicts of interest or of any situation which may be perceived as a conflict of interest;
- must seek prior clearance to deal in shares or investments of regulated entities; and
- must provide notification of gifts or benefits received in the course of carrying out their responsibilities.

The Code includes procedures for the management of perceived conflicts and perceived potential conflicts relating to close relationships between the employees and consultants of the DFSA and of other DIFC agencies.

The Code sets out core Values and Ethics that employees are expected to meet. These include:

- ethical and honest behaviour;
- prudence, care and diligence in the carrying out of our duties;
- treatment of others with impartiality, fairness, respect and courtesy;
- compliance with laws and with lawful and reasonable directions;
- maintenance of confidentiality;
- disclosure and avoidance of conflicts of interest (real or perceived);
- impartiality and professionalism in our decision making;
- no discrimination or harassment in the workplace or in the community;
- no improper use of information, or of position, in order to gain a benefit for themselves or for others; and
- no activity that does not uphold the values, ethics or reputation of the DFSA.

The DFSA Board of Directors has adopted a similar Code of Values and Ethics appropriate for Members of the Board, Committees and Tribunals.

# DFSA BOARD COMMITTEES

## LEGISLATIVE COMMITTEE

Michael Blair QC - Chairman

Robert L. Clarke

David Knott

Robert Owen

Joyce Maykut QC - (Refer to page 26 for biography)

Ermanno Pascutto - External Committee Member (Refer below for biography)

Georg Wittich

Ian Johnston - (Refer to page 26 for biography)

The primary function of the Legislative Committee is to assist the Board in discharging its policy-making function and legislative function, including the development of legislation related to the regulation of financial services and related ancillary activities conducted in or from the DIFC.

**Ermanno Pascutto** is a lawyer and a former senior securities regulator in Hong Kong and Canada. He specialises in securities matters involving the regulation of public companies and financial intermediaries including advising with respect to disciplinary and enforcement matters, licencing, listings, governance and takeovers. He is currently senior advisor to the US law firm Troutman Sanders' Hong Kong Office and Counsel to a Canadian securities litigation boutique. He is a former Founding Director and Vice Chairman of the Securities and Futures Commission, Hong Kong (1989 to 1994), COO of the Ontario Securities Commission (1984 to 1989) and Director of Market Policy of the Toronto Stock Exchange. In addition to practicing Law in Hong Kong and Canada, he is a Director of Market Regulation Services Inc. and also consults to stock exchanges and securities commissions in Hong Kong, the Middle East and the Caribbean.

## AUDIT AND RISK COMMITTEE\*

Abdullah M. Saleh - Chairman

The Hon. Apurv Bagri

R. Douglas Dowie - External Committee Member (See biography on page 23)

Saeb Eigner

The Earl of Home

David Knott\*

J. Andrew Spindler

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the processes for identifying, evaluating and managing the DFSA's principal risks impacting financial reporting.

\*On 23 January 2006 the Board resolved that the Finance and Audit Committee be reconstituted as an Audit and Risk Committee and new Terms of References were adopted to better focus on the identification and mitigation of risk. Non-audit financial oversight reverted to the full Board. The Terms of Reference also necessitated a review of the Committee composition. Neither the Chairman nor Chief Executive can be members but may attend by invitation.

**R. Douglas Dowie** is the CEO of the National Bank of Dubai with global responsibility for the bank's affairs reporting to the Board. He is Chairman of NBD Properties and of NBD Securities, the brokerage arm. He is also a Director of NBD Investment Bank, NBD Trust Company (Jersey) Ltd., Marsh Insco (an insurance broker incorporated in the UAE) and a Member of the University Council of the British University in Dubai.

A career international banker with Standard Chartered Bank, Mr. Dowie's first assignment overseas took him to Aden in 1963 followed by assignments in the Middle East including Lebanon, where he graduated from the Middle East Centre for Arabic Studies. He subsequently served in Libya, Iran and several of the GCC states. Mr. Dowie also served in the Far East with assignments in Hong Kong and Indonesia.

#### **GOVERNANCE AND NOMINATIONS COMMITTEE**

Saeb Eigner - Chairman

The Hon. Apurv Bagri

Lord Currie of Marylebone

The Earl of Home

David Knott

J. Andrew Spindler

The primary function of the Governance and Nominations Committee is to assist the Board in fulfilling its supervisory responsibilities in respect of the operations of the Board and its management, to identify individuals qualified to become Board Members, to develop a succession program and to develop and recommend to the Board a set of corporate governance principles.

## **REMUNERATION COMMITTEE**

J. Andrew Spindler - Chairman

The Hon. Apurv Bagri

Lord Currie of Marylebone

Saeb Eigner

David Knott

Robert Owen

The primary function of the Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to all aspects of Human Resources at the DFSA, including performance and compensation.

## **REGULATORY APPEALS COMMITTEE**

Robert Owen - Chairman

Michael Blair QC

Robert L. Clarke

John Holmes - External Committee Member (Refer below for biography)

Georg Wittich

The Regulatory Appeals Committee (RAC) was established under Part 2 of the Regulatory Law 2004 to function as an “internal” appeal mechanism for DFSA Executive regulatory decisions, ensuring procedural fairness, objectivity and transparency. The RAC is empowered to conduct a full merit review of Executive decisions under appeal. Appropriate to its function, the RAC is restricted to determining what action the DFSA should take on regulatory matters and to remitting the matter to the Chief Executive with directions. Although it is established under the Regulatory Law, the RAC has been given extended jurisdiction to hear appeals against certain types of decisions made by the DFSA Executive, under other legislation.

Decisions of the RAC may be reviewed by the DIFC Court by way of judicial review on a point of law.



**John Holmes** has over 25 years of experience, both as a practicing solicitor and in management roles at Clifford Chance. Most recently, he was Managing Partner of Clifford Chance Middle East where he was responsible for the development and implementation of strategy and the management of the firm's offices and strategic associations. Prior to this, he was the Managing Partner of the firm's Moscow office, during which time he assisted with the implementation of the merger with Punder in Russia at the time of the firm's triple merger on 1 Jan 2000. Previous experience includes 7 years in Hong Kong managing the corporate and financial markets practice and 2 years in Bahrain. John also spent 2 years on secondment to a major multinational company in their European head office in Lausanne, where he was responsible for setting up the legal department for the newly created Europe, Middle East and Africa (EMEA) region and was the sole transactional lawyer. He practised in the London market for over 6 years where he specialised in a range of corporate and finance transactions. John is admitted as a solicitor in England and Wales, Hong Kong and the Australian Capital Territories.

## THE FINANCIAL MARKETS TRIBUNAL (FMT)

Stewart Boyd CBE QC - President

John L. Douglas

Gavan Griffith QC

Ali Malek QC

Hesham A. Qassimi

David M. Stockwell

(For biographies, see below)

The Financial Markets Tribunal (FMT) was established under the Regulatory Law to serve as an independent and efficient expert tribunal to determine contraventions of DFSA administered legislation and related regulatory and commercial proceedings. It is a broadly empowered financial services markets tribunal with a remit and powers comparable to other international integrated financial services regulatory tribunals. The FMT is empowered to establish its own rules of procedure and may make a broad range of orders designed to address the needs of the DFSA and financial services industry in the DIFC. Decisions of an exchange may be appealed to the FMT. The decisions of the FMT may be appealed to the DIFC Court.

The FMT is operationally independent of the DFSA Board and Executive.

**Stewart Boyd CBE QC** is a senior member of Essex Court Chambers in London, specialising in international commercial and investment disputes, mainly as arbitrator. He was called to the Bar in 1967 and was made a Queen's Counsel in 1982. He is the author, with Lord Mustill, of the leading English textbook on Commercial Arbitration. From 1998 to 2004 he was Deputy Chairman of the Financial Services Authority (FSA), UK. He has presided over a number of government and regulatory inquiries and has presided as a Recorder over criminal trials and as a Deputy High Court Judge over civil and commercial trials. He was awarded the CBE in 2005 for his services to the financial sector. He is a Master of the Bench (the governing body) of the Middle Temple, one of the 4 Inns of Court in England with responsibility for legal education and other professional matters.

**John L. Douglas** heads the bank regulatory practice at Alston and Bird LLP, and practices from the firm's Washington DC and Atlanta offices. He served as General Counsel of the Federal Deposit Insurance Corporation (FDIC) from 1987 until 1989

and is a member of the Board of Directors of the FSVC, a non-profit organisation formed to assist former state-controlled economies develop banking and capital markets systems. In that capacity he has provided advice to the governments of Russia, China, Indonesia, Egypt and others. His practice involves complex mergers, acquisitions and joint ventures, difficult regulatory enforcement activities and sensitive investigations. He served as a member of the Board of Providian Financial Corporation (NYSE:PVN) and on its Audit and Corporate Governance Committees. He is a frequent lecturer on banking law matters and is listed in The International Who's Who of Business Lawyers, Legal Media Group's Guide to the World's Leading Banking Lawyers, Chambers' American Leading Lawyers for Business and White's Best Lawyers in America.

**Gavan Griffith QC** practices as a barrister and international chartered arbitrator in Melbourne and also at Essex Court Chambers, London. He was Solicitor-General of Australia from 1984 to 1997. He appeared as counsel and agent for Australia at the International Court of Justice. He has had various international appointments, including Leader of Australia's Delegation, and sometime Vice-Chairman, of the United Nations International Trade Law Commission (UNCITRAL) including in sessions for the adoption of UNCITRAL Model Law of International Commercial Arbitration at Vienna in 1985. He was Consultant Counsel to the United National New York 1994 to 1995. Amongst other appointments he was Leader of the Australian Delegation to The Hague Conference on Private International Law 1992-1998, Member, and sometime Chairman, of INTELSTAT Panel of Legal Experts 1988 to 1997, and Member of the Permanent Court of Arbitration at the Hague 1987 to 1999. He is a Member of the Panel of Arbitrators at the International Centre for Settlement Investment Disputes (ICSID) and of various other arbitral institutions.

He holds a DPhil from Oxford University and has been a sometime fellow at Magdalen College, Oxford. He now practices substantially as Counsel and as Chairman or Member of international tribunals, including those administered by the Permanent Court of Arbitration, ICSID, LCIA (London), ICC (Paris) and other administered and non-administered arbitrations.

**Ali Malek QC** is a leading barrister in England and Wales specialising in all aspects of Commercial Law including Banking and Financial Services Law. He appears as counsel in cases in the UK Commercial Court, Court of Appeal, Privy Council and the House of Lords as well as in a number of substantial international arbitrations. He is a Bencher of the Honourable Society of Gray's Inn and a Recorder of the Crown Court. He is Treasurer of the Commercial Bar Association and a Member of the General Council of the Bar. He is also a co-author of Jack, Malek and Quest: Documentary Credits (3rd Edition). He obtained his MA and BCL at Keble College, Oxford University. He was called to the Bar in 1980 and appointed Queen's Counsel in 1996.

**Hesham A. Qassimi** joined the National Bank of Dubai in 1994, moved to Corporate Banking in 2001 and is currently the Deputy Head of Corporate Banking. He is a Member of the Board of Director of National Financial Services, a subsidiary of the National Bank of Dubai. He has been selected for the Mohammad Bin Rashid Programme for Leadership Development; represented the Bank in various external forums and committees apart from acting as the Head of Private Office, Government unit and General Coordinator for the Directors of the Bank. He holds a Masters Degree in International Business.

**David M. Stockwell** currently manages Stockwell and Associates, a law firm concentrating on corporate law, regulation of business and alternative dispute resolution for multinational and Middle Eastern clients. He is the former US Consul General in Dubai, was born in Saudi Arabia and has lived in the Middle East for more than 45 years. He was admitted to the Bar in Texas, in 1976 and was licenced in Dubai in 1989. He is a member of the Houston and International Bar Associations and Chairman Emeritus of the American Business Council of the Gulf Countries, the regional organisation representing all American Chambers of Commerce in the GCC. He is a Founder and Chairman of the Trustees of a not-for-profit educational foundation, The Cultural Foundation, established by Decree of the Ruler of Dubai that owns and operates the American School of Dubai.

## THE DFSA SENIOR MANAGEMENT

### **David Knott - Chief Executive**

(See biography on page 11)



### **Joyce Maykut QC - General Counsel and Secretary to the Board**

Joyce joined the DFSA in January 2004 as General Counsel after a 30 year legal career in the public and private sector in Canada. As General Counsel, Joyce is the DFSA's senior legal adviser heading up international relations and the Board Secretariat. Joyce holds a Law Degree from the University of Alberta and was appointed Queen's Counsel in 1988. She was Vice Chair of the British Columbia Securities Commission for 14 years prior to joining the DFSA and was active in the Canadian Securities Administrators, Council of Securities Regulators of the Americas, North American Securities Administrators Association and IOSCO.



### **Ian Johnston - Managing Director, Policy and Legal Services**

Ian is a well known and experienced international regulator who joined the DFSA, in November 2006, to head up the newly created Policy and Legal Services Division. Ian was admitted to practice Law in Australia in the early 1980s and has spent most of his career in the private sector. He held a number of senior positions within the AXA Group and was CEO of one of Australia's major Trustee Companies. During this time, Ian played a leading role in the Trustee industry and served on the National Council of the Trustee Corporations Association.

In 1999, Ian joined the Australian Securities and Investments Commission (ASIC) where he held the position of Executive Director, Financial Services regulation and spent several terms as an acting Commissioner. In 2004 Ian took up a position with the Hong Kong Securities and Futures Commission as a Special Advisor. Ian is a Member and past Chairman of the Joint Forum, which comprises representatives of the major international regulatory standard-setters (IOSCO, Basle Committee and IAIS).



### **Jane Coakley - Managing Director, Authorisation**

Jane joined the DFSA in February 2005 as Managing Director, Authorisation to oversee the team responsible for Authorisation to carry on regulated activities within the DIFC. Jane's regulatory and industry experience includes senior positions at the Securities and Investments Board, London (both Policy and Supervision roles), Morgan Stanley (Executive Director) and most recently before joining the DFSA, a non-executive role at the Financial Services Authority (UK). Jane's education and qualifications include a BA degree in History (Trinity College, Washington DC including 1 year at St. Anne's College, Oxford), an MSc in Finance and Accounting (London School of Economics and Political Science), an MBA (INSEAD, France) and the Certificate in Securities and Financial Derivatives from the Securities Institute in London.



**Michael Zamorski** - Managing Director; Supervision

Michael joined the DFSA in April 2006 after a 29 year career with the US Federal Deposit Insurance Corporation (FDIC) to oversee Supervision of Authorised Firms within the DIFC. As FDIC's Director of the Division of Supervision and Consumer Protection, he was responsible for overseeing the FDIC's bank supervisory activities for safety and soundness, as well as compliance and consumer protection for the 5,200 institutions under its jurisdiction. Michael was a Member of the Basel Committee on Banking Supervision, the prudential standard-setter for large, internationally-active banks, from 2000 to 2006. Michael holds a BS degree in Economics, conferred cum laude, from Villanova University, Pennsylvania and is a graduate of the American Bankers' Association's Stonier Graduate School of Banking.



**Martin Kinsky** - Managing Director; Markets

Martin joined the DFSA in March 2006 as Managing Director; Markets and has overall responsibility for the DFSA's regulation of the Dubai International Financial Exchange (DIFX) and other future exchanges that may receive authorisation to operate within the DIFC. Martin was previously a Senior Executive at the Australian Stock Exchange (ASX). Over a career at the ASX spanning some 30 years, Martin has gained wide ranging experience of the operations of the Exchange. He has held various positions at the ASX including Company Secretary and General Counsel as well as managing the Membership / Intermediaries and Enforcement functions. Martin holds a Bachelor of Law degree from Sydney University, is a solicitor and has had a long involvement with industry associations aimed at fostering and developing Commercial and Corporate Law communities in Australia.



**Niall Coburn** - Director; (Acting Head) Enforcement

Niall has been with the DFSA since March 2003 as Director of Enforcement. Niall is responsible for undertaking the Enforcement activities on the part of the DFSA within the DIFC. Prior to joining the DFSA, Niall was a Principal Enforcement Lawyer with the ASIC and lectured in law part-time at a number of Universities. He has conducted large-scale corporate investigations both in Australia and internationally. In 2002, Niall received an ASIC Australia Day Honour Medal for his work in corporate investigations. Niall is admitted as a Barrister of the High Court of Australia and holds a Bachelor of Law and Arts and a Master of Law from Melbourne University. He has published widely, in Australia and internationally, which include 14 articles and a reference book, "Coburn on Insolvent Trading, Global Investment Fraud and Corporate Investigations" published in 1999 with a 2nd edition in 2002.



**Jan Bladen** - Chief Operating Officer

Jan joined the DFSA in February 2005 as Director for Risk Management and Special Projects and was promoted to COO in June 2005. Prior to the DFSA Jan spent 7 years with PricewaterhouseCoopers in both Geneva and Dubai as a Member of the Global Risk Management Practice. Jan has also held managerial positions in other European countries and spent 3 years as a management consultant with McKinsey Partners. From 1998 to 2003 Jan was President of Executives International, a Swiss-based business networking association of 300 members. In 2000 Jan was elected to the Committee of the British Swiss Chamber of Commerce and remains both a Councillor and Committee Member. Jan is fluent in English, French and Spanish and obtained an MBA (Summa cum laude) from Lausanne in 1993.



**Gary Wallis** - Head of Human Resources (HR)

Gary joined the DFSA in March 2006 as Head of Human Resources and is responsible for HR planning, management, policies and practices. Gary has more than 25 years experience internationally including 9 years in the financial sector. He has previously worked in Dubai as Regional Head of HR for ABN AMRO and held a senior HR development role at HSBC. Gary has also been Global Head of HR for Private Clients and Asset Management business unit based in Amsterdam. Gary holds a BSc degree in Political Science and is a Fellow of the Institute of Personnel Development.

## PART TWO - WHAT WE DO

### THE DFSA REGULATORY STRUCTURE

To achieve maximum efficiency the DFSA has been structured along functional rather than sectoral lines.

**The Authorisation Division** is responsible for considering applications to conduct financial or ancillary services in the DIFC. It also considers applications for individuals to carry out certain roles in Authorised Firms.

**The Supervision Division** is responsible for the risk-based supervision of firms conducting financial services in and from the DIFC. It has and uses a wide range of supervisory tools both proactively and in response to external events. These tools include both desk-based monitoring and physical visits to Authorised Firms. The Division influences policy developments in the areas for which it is responsible and assists other DFSA departments where appropriate. Close relationships are maintained with international supervisors to ensure effective oversight of firms operating in more than one jurisdiction.

**The Markets Division** is responsible for the licencing and supervision of exchanges and clearing houses as well as Recognised Members. It also supervises the conduct of Reporting Entities and is a contributor to the development of policy and changes to rules that relate to its supervisory portfolio.

**The Enforcement Division** is responsible for taking action against financial and ancillary services firms that do not meet the high standards required in the DIFC. It may also take action against individuals in such firms. In certain circumstances it may take action against other persons, for example in cases of market misconduct. The Division was also responsible for the administration of the Data Protection Legislation until it was transferred to the DIFCA.

**The Policy and Legal Services Division\*** is responsible for policy advice and formulation, providing in-house legal advice and support to operating divisions of the DFSA and managing the business of the Policy and Rules and Waivers Committees. It is also responsible for developing and maintaining the laws and the DFSA rules, for which the DFSA is responsible, and for consulting with DIFCA on other DIFC legislation. It oversees and is responsible for Communications and Strategic Planning.

\* In July 2006 the Office of General Counsel was re-structured effective 1st November 2006, resulting in the creation of the Policy and Legal Services Division and General Counsel assuming the responsibilities for the Board Secretariat.





**General Counsel and Board Secretariat** is responsible for providing lead advice and counsel to the Board of Directors and its Committees, the Chief Executive and operating divisions on legal matters affecting the DFSA, including advising on internal governance issues, managing high level legal relationships and major contracts, interfacing with the DIFC Court and overseeing DFSA litigation. The Board Secretariat manages and coordinates all corporate secretary functions for the Board and each of its Committees. General Counsel also oversees the DFSA's role in international relations.

**The Corporate Services and Operations Division** is responsible for Office Administration, Information Technology, Finance, Project and Risk Management and the Tomorrow's Regulatory Leaders Program.

**The Human Resources Division** is responsible for all aspects of employee resources at the DFSA.

# THE DFSA IN ACTION

## RISK-BASED REGULATION

The DFSA is a risk-based regulator. It assesses the risks and sets priorities for the use of its resources to mitigate those risks. This principle applies when dealing with individual firms, between firms of a similar type and between sectors.

The DFSA adopts a continuous risk management cycle comprising the identification, assessment, prioritisation and mitigation of risks. Risks may arise from areas within the firm including business, operations, internal controls and compliance arrangements. General risk factors are also included in the risk management process, including external factors that apply either to particular sectors of the regulated community or to the entire community.

Systematic assessment of risk also allows the DFSA to identify common issues between firms, for example a pattern of weak corporate governance in firms of a certain type, and to undertake thematic work in response.

The DFSA also undertakes market monitoring and research in order to identify, assess and address any developments either within or outside the DIFC which may pose a risk to the Centre or a particular section of the DIFC community.

This philosophy applies to all parts of the DFSA, and all its dealings with regulated entities, whether these relate to Authorisation, Supervision, Markets or Enforcement.

The DFSA has taken a risk-based approach to develop its 2007 / 2008 Business Plan and will continue to utilise a risk-based approach to develop and implement future plans.

The DFSA believes that a risk-based and not rule-based approach to regulation results in more effective and efficient regulation. The DFSA also believes that it is appropriate and timely to clearly and succinctly state its approach to regulation to ensure the essence of its approach is clearly understood externally and to act as an aide-memoire internally, to ensure the DFSA constantly strives to deliver cost-effective and efficient regulation.

The DFSA's **Vision, Mission, Values** and **Approach to Regulation** form the foundation upon which we do our work.

# AUTHORISATION

## KEY ACHIEVEMENTS IN 2006

**Organisation and Resources** - The core function of processing applications for Authorisation accounted for the majority of the activity of the Division in 2006. Significant effort was also dedicated to completing the Business Improvement initiative launched in 2005. The Division both increased and re-organised its resources in response to the substantial increase in applications from Firms. A net increase of 4 Case Managers strengthened significantly the regulatory experience and technical expertise of the Division. The Authorisation Enquiries Unit was also strengthened to support the steady volume of wide ranging Authorisation related enquiries. A Shared Services unit was created to handle a number of regulatory processes common to Authorisation and other Divisions. This provided opportunities for us to manage our resources more efficiently and flexibly. The new unit has responsibility for all background checks on individuals and the registration and on-going Supervision of professional firms (i.e. ASPs and registered Auditors). An experienced regulator was recruited to join the Shared Services team to finalise and implement an enhanced regime for Auditors.

**Policy Initiatives** - Several important policy initiatives were completed in 2006 following full consultation with the DIFC financial services industry. Their completion enabled the Division to allocate its resources more efficiently and to target the areas which pose the greatest risk to the objectives of the DFSA. These policy changes, summarised below, also demonstrate our commitment to reduce the regulatory burden on firms wherever possible.

**Registered ASPs** - The DFSA Board agreed to streamline the scope of the registration regime for ASPs to include only those firms providing Accountancy or Legal Services to firms or exchanges authorised by the DFSA. This important change resolved fundamental problems with the original ASP regime and enabled the Division to focus its resources more effectively on material risks to the objectives of the DFSA.

**Registered Auditors** - The DFSA Board agreed to introduce an enhanced regime for the registration and supervision of Auditors designed to foster confidence in the quality of the reporting of the DIFC financial services industry.

**Authorised Individuals** - The DFSA Board agreed to streamline the regime for Authorised Individuals to cover only those individuals who exert significant influence on the operations of the Authorised Firm.

## OVERVIEW OF 2006 AUTHORISATION ACTIVITY

Authorised Firms - The annual increase in the number of Authorised Firms during 2006 was 75. (2005: 19 Firms were Authorised).

Registered ASPs - The annual increase in the number of Registered ASPs during 2006 was 20. (2005: 12 ASPs were Registered.)

Registered Auditors - The annual increase in the number of Registered Auditors during 2006 was 1. (2005: 4 Auditors were Registered.)

Authorised Individuals (AI) - The number of Individuals approved to perform 1 or more licenced functions during 2006 was 345. (2005: 205 Individuals were Authorised.)

The Division established service standards in 2006 as follows

## SERVICE STANDARDS AND PERFORMANCE

Standard	Target	Performance
To process an application for Authorisation to the "in principle" stage	within 50 business days of receipt	75% (annual performance reflects the fact that the business improvements in relation to this standard were not fully in place until the second Quarter of 2006)
To process an application for Auditor registration	within 30 business days of receipt	100%
To process an application for ASP registration	within 7 business days of receipt	N/A for 2006 due to regime change mid year
To process application for Authorised Individual status	within 5 business days of receipt	99%

## SUMMARY OF AUTHORISED AND REGISTERED FIRMS FOR 2006

The details of applications in progress remain confidential although all approvals (licences, registration and AI status) are published on the Public Register which can be found on the DFSA website. The full list of Firms Authorised or Registered during 2006 are set out in Appendices 4, 5 and 6.

## SUPERVISION

### KEY ACHIEVEMENTS IN 2006

- the number of AFs rose from 19 year ending 2005 to 99 in 2006. Many firms moved from start-up to an active operating phase and a number sought enhancements to the scope of their licence;
- the Division implemented important developments of the regulatory regime such as the new Collective Investment Funds (CIF) regime, the abolition of the Licenced Representative regime and the transition to the revised ASP regime. Enhancements to the Insurance regime were enacted with amendments allowing the conduct of retail business from a branch of a DIFC entity;
- the Division participated in self-assessments of the DFSA regime against international regulatory standards and put forward proposals for further enhancement of the regime. It developed proposals for the implementation of the Basel II Capital Accord and for the creation of a new Data Collection and Dissemination Framework, to facilitate analysis of Firm activity and risk levels;
- further development of the Islamic Finance regime, to facilitate the positioning of the DIFC as an international hub for Islamic Finance. In this area, an important collaboration was initiated with the Malaysian Securities Commission to make it easier for Islamic instruments to be traded in both markets;
- 27 on-site risk assessments were conducted during 2006 with risk mitigation programs implemented where necessary;
- conducted 2 DFSA Anti-Money Laundering and Counter Terrorism Financing information sessions with AFs and Registered ASPs; and
- participated in the standards-setting activities of the IAIS, representing the DFSA on the Technical Committee and other groups. In addition, was active in the work of the Islamic Financial Services Board and in a joint working group on Takaful (Islamic insurance) set up between these bodies.

### SERVICE STANDARDS AND PERFORMANCE

Standard	Target	Performance
Risk assessments initiated within timeframe	100%	96%

# ANTI-MONEY LAUNDERING (AML) AND COUNTER TERRORIST FINANCING (CTF)

## OVERALL REGIME AND ONGOING SUPERVISION

The DFSA is actively engaged in fostering a culture of AML/CTF compliance within the DIFC.

The DFSA applies a comprehensive regulatory regime in relation to AML/CTF which is in-line with international standards, in particular those set by the Financial Action Task Force (FATF) through its 40 Recommendations and 9 Special Recommendations.

The initial vetting of applicants and the ongoing supervision of AML/CTF compliance continues to be high on DFSA's agenda and forms an integral part of its risk-based approach. Assessing the effectiveness of the AML/CTF controls established and maintained by the Firm forms a vital component of the risk assessment process.

## REVISED ASP REGIME

The revised ASP Module came into effect on 18 June 2006. The key changes consisted of the refinement of the AML/CTF provisions to provide greater clarity as regards what is required of the 2 remaining categories of ASPs whilst still ensuring that FATF requirements are fully incorporated.

## SUSPICIOUS TRANSACTIONS REPORTS (STRs)

In 2006, 8 STRs were filed by AFs and ASPs with the Anti-Money Laundering Suspicious Cases Unit (AMLSCU) of the UAE Central Bank (with a copy sent to the DFSA). All STRs were identified as a result of effective AML procedures within the Firms.

## TRAINING AND AWARENESS

AML/CTF awareness throughout the DIFC is actively supported by the DFSA which continues to roll-out a number of training and information sessions. This includes inter alia, coverage of Federal Law requirements as well as filing of STRs. 4 training sessions with DFSA staff were conducted and 8 information sessions were provided to AFs, ASPs, the DIFCA and other regulators/authorities (Dubai Police at their College Academy), throughout the year.

## MARKETS

### KEY ACHIEVEMENTS IN 2006

The most significant undertaking of the Markets Division during the year was the receipt of, and the substantial assessment of, the first AMI application to establish a commodities derivatives exchange in the DIFC. The Dubai Mercantile Exchange (DME) (a joint venture project between NYMEX and Tatweer, a wholly owned subsidiary of Dubai Holdings), made an application to the DFSA to establish a commodities exchange. DME wishes to trade sour crude oil deliverable futures contract, the first of its kind in the GCC region. In conjunction with the application for Authorised Market Institution status, the Markets Division also assessed an application from NYMEX to permit it to clear and settle DME trades.

Assessment of both applications is continuing by the DFSA with final approvals likely to be granted in the first half of 2007.

The development of the Sukuk market in the DIFC is a reflection of strong regulatory framework for Islamic products developed by industry and regulated by the DFSA. The Markets Division now regulates the largest Sukuk market in the world valued at AED 7.63 billion or 44% of the total Sukuk value listed on all exchanges globally. Nakheel, the property developer of The Palms and The World, listed the world's largest Sukuk on DIFX on December 14th 2006.

The USD 3.52 billion listing confirms the DIFX's status as the largest exchange in the world for Sukuks.

### RECOGNISED BODIES

In 2006, Markets received 5 applications for Recognised Body status for assessment. The recognition regime in the DFSA Rules is designed to reduce the day-to-day involvement of the DFSA in the supervision of these entities and to allow the DFSA to rely substantially on the supervisory and regulatory arrangements in the country where the applicants head office is situated.

A Recognised Body is either an exchange, clearing house or settlement organisation that is located outside the DIFC, but undertakes a financial service within the DIFC.

During the year, the following 3 exchanges were recognised:

- New York Mercantile Exchange Inc.;
- Commodities Exchange Inc.; and
- ICE Futures.

The assessment of the 2 other applications (involving a futures exchange and a clearing house) are currently in progress.

### **RECOGNISED MEMBERS**

The Markets Division received and processed an increasing number of applications from international firms seeking membership of the DIFX. Recognised Members are members of an Authorised Market Institution who have no physical presence in the DIFC.

The DFSA recognised 8 entities as a precondition to membership of the DIFX, namely Jefferies International Ltd., KAS Bank NV, Merrill Lynch International, ABN Amro Bank NV, ING Bank NV, Hichens Harrison and Co. PLC., Morgan Stanley and Co. International Limited and Barclays Capital Securities Limited.<sup>(1)</sup>

In addition, Markets is considering applications for in-principal approval for Recognised Member status for firms seeking membership of the DME.

### **TAKEOVERS**

Investcom LLC. was the subject of a successful takeover by MTN International (Mauritius) on 23 May 2006 for the entire issued share capital and Global Depository Receipts (DIFX listed). The conduct of the take over was subject to DFSA Rules and was the first of its kind regulated by the DFSA.

### **RISK-BASED REGULATORY CHANGES**

Following a review by Markets of Reporting Entity disclosure obligations, the DFSA moved to reduce the regulatory burden on companies which list products on DIFC Authorised Market Institutions, by removing the requirement to appoint a Sponsor to assist them with their disclosure obligations. This amendment to the rules removed the regulatory disclosure burden from Sponsors and re-aligned the duty imposed upon all Reporting Entities to make timely disclosure of price sensitive information. Markets also reviewed aspects of the operation of the Recognition Module and proposed change to facilitate principal trading by remote members of commodities exchanges.

## STATISTICAL INFORMATION

Regulatory Actions	No	Regulatory Activity
AMI Listing decisions Reviewed	14	All listing decisions were reviewed with 5 business days of notification.
Reporting Entities under OSR	15	DFSA now supervises 15 Reporting Entities in DIFC.
Takeovers	1	Takeover of DIFX listed securities.
Thematic reviews of DIFX	2	Substantive reviews of 2 key areas of DIFX obligations to ensure compliance with on-going obligations contained in AMI module.
Price Stabilisation	1	Consent to conduct price stabilisation activity associated with a new listing on DIFX.
Notification of Securities Offers from the DIFC	3	There were 3 offers of securities made from the DIFC that were notified to the DFSA during the period.
Disclosure notifications to DIFX	177	DFSA has delegated its responsibilities to maintain an electronic data gathering, analysis and retrieval system for the disclosure of price sensitive information to the DIFX.
AMI breach notifications to the DFSA	0	An AMI is required to make notifications to DFSA immediately it becomes aware, or has reasonable grounds to believe that a significant breach of a Rule or Licencing requirement has occurred.

## SERVICE STANDARDS AND PERFORMANCE

Standard	Target	Performance
Listing documents and decisions reviewed	5 business days	100%

# ENFORCEMENT

## KEY ACHIEVEMENTS IN 2006

The Enforcement Division's role changed in 2006 to include taking regulatory action within the DIFC including obtaining an Enforceable Undertaking and injunctive orders from the DIFC Court. The 2 regulatory actions taken related to circumstances where individuals and companies falsely claimed regulatory status in the DIFC. The DFSA Enforcement actions enhanced the reputation of the DFSA in the DIFC and internationally.

## THE DIVISION:

- obtained an Enforceable Undertaking in relation to false statements made concerning regulatory status in the DIFC;
- obtained Injunctive Court Orders in relation to Enduam Asset Management restricting statements being made about its regulatory status in the DIFC;
- assisted Financial Services Agency, Japan to close down a boiler room operation in Tokyo;
- ensured compliance with the Takeover Rules in relation to a listing in London and the DIFX;
- assisted international regulators and provided information in relation to their requests for assistance concerning investigations or due diligence within their jurisdictions;
- assisted the US Commodity Futures Trading Commission (CFTC) to obtain civil statements in the UAE to assist with their proceedings in the US;
- conducted joint seminars with the Dubai Police Academy and the Emirates Securities and Commodities Authority (ESCA) on Combating Financial Crime;
- liaised with the Dubai Police and other international enforcement agencies in relation to intelligence issues;
- worked closely with the Dubai Police Academy and ESCA in relation to training people in the region to better investigate and combat financial crime in their countries. Additionally, 2 senior Dubai Police officials were seconded and trained by Enforcement;
- worked closely with International Relations through the year to provide assistance to numerous international regulatory and enforcement bodies, including the UK FSA, Securities Commission of Malaysia, International Financial Services Centre of Dublin, US CFTC, UAE ESCA, Dubai Police, Barbados Securities Commission, Jersey Financial Services Commission, Public Prosecution Office, Italy; and

- met with and / or presented a number of papers to numerous international organisations on the operations of the DFSA, combating Financial Crime in the Middle East, Anti-Money Laundering and Counter Terrorism Financing. These included: ESCA, US State Department, US Department of Treasury, US Securities and Exchange Commission, US CFTC, Capital Market Authority of Saudi Arabia, Saudi Stock Exchange, UK FSA, UK Serious Fraud Office, Lloyds of London, Amman Stock Exchange, Jordan Serious Organised Crime Agency, Jordan Securities Commission, Jordan Metropolitan Police, Capital Market Authority Egypt and the Cairo and Alexandria Stock Exchanges.

Combating financial crime will remain an important area to develop regional skills and expertise in 2007. The DFSA intends to play an important role in this within the DIFC and in the Gulf region. Presentations on combating financial crime in major industry arenas in the Gulf region, UK, Europe and the US will drive this process. Enforcement is working closely with the Dubai Police Academy to establish a course on Financial Crime with the aim to train expert financial investigators in the region to support a growing complex financial market.

#### SERVICE STANDARDS AND PERFORMANCE

Standard	Target	Performance
Response to requests for information and assistance	100%	100%
Obtaining enforcement action and court orders	100%	100%

## DATA PROTECTION

The DFSA administers the Data Protection Law 2004 and the Data Protection Rules Module, which governs all persons operating in the DIFC, including the agencies charged with the task of administration and regulation of the DIFC. The data protection legislation was modelled on data protection principles set out in European Union legislation.

The legislation governs how personal information is to be processed, managed and protected within the DIFC and under what conditions it may be transferred outside the DIFC.

In 2006 the DFSA enhanced practices and procedures for the operation of data protection. Although the data protection law was implemented in September 2004, the DFSA acknowledged that certain enhancements should be made and therefore, took responsibility for re-drafting the first data protection law in the UAE, to make it more effective.

The DFSA Enforcement Division trained 15 DIFCA staff and provided a series of talks on data protection principle. The DFSA and DIFCA have agreed that the DFSA will transfer its responsibility to administer the legislation to an independent data protection office within the DIFCA in January 2007, following enactment of relevant legislative amendments.

The hand over ensures continuity of supervision between the DFSA and the DIFCA. There will be on-going co-operation between the two agencies to ensure continued high standards of compliance.

## POLICY AND LEGAL SERVICES\*

### KEY ACHIEVEMENTS IN 2006

The core functions of developing financial services policy, legislation and rules and providing legal services to operating divisions, accounted for the majority of the activity of the Division in 2006. One of the most significant and comprehensive projects in 2006 relating to the enhancement of the DIFC legislative framework included the development of the Collective Investment regime. The extent of the project is reflected in part in the following 19 Consultation Papers and related draft legislation and rules. All of the Consultation Papers were published for public comment on the DFSA website in 2006.

### CONSULTATION PAPERS

- CP No. 23 on Limited Partnership Law
- CP No. 24 on Limited Partnership Regulations
- CP No. 25 The Proposed Regime for Collective Investment Funds
- CP No. 26 Investment Companies Regulations
- CP No. 27 Prudential - Investment, Insurance Intermediation and Banking Business (PIB) and Prescribed Forms and Notices (PFN)
- CP No. 28 The Proposed Restructuring of the Ancillary Service Providers Regime
- CP No. 29 Proposed Changes Relating to Licenced Representatives
- CP No. 30 Proposed Changes Relating to Sponsors
- CP No. 31 Proposed Changes Relating to Branches of DIFC Incorporated Firms
- CP No. 32 Proposed Reduction of Capital Requirements for Brokers Acting as "Matched Principals"
- CP No. 33 Proposals for Investment Trust Law and Requirements Relating to Public Property Funds
- CP No. 34 Proposals to Amend the Requirements Relating to Marketing and Selling Foreign Funds
- CP No. 35 Proposals to Extend the Annual Reporting Period Applicable to Reporting Entities
- CP No. 36 Proposed Changes to the Framework for the Regulation of Auditors
- CP No. 37 Use of Prime Brokers by Hedge Funds
- CP No. 38 Miscellaneous Amendments to the Takeover Rules
- CP No. 39 A New Category of Recognised Members
- CP No. 40 Proposal to Remove the Requirement for a Licenced Director/Partner at the Head Office
- CP No. 41 Proposed Changes to DFSA Administered Legislation in Relation to the Definition of Day.

As a consequence the following Laws were enacted and rule amendments made in 2006.

## LAWS

Collective Investment Law DIFC Law No. 1 of 2006 18 April 2006  
Investment Trust Law DIFC Law No. 5 of 2006 1 August 2006  
Limited Partnership Law DIFC Law No. 4 of 2006 (this Law, is administered by DIFCA however, it was drafted by the DFSA as the law is used primarily for Collective Investment Funds)  
Regulatory Law Amendment Law (Collective Investment) DIFC Law No. 2 of 2006  
Regulatory Law Amendment Law (Investment Trust) DIFC Law No. 7 of 2006  
Regulatory Law Amendment Law DIFC Law No. 8 of 2006.

## AMENDMENTS TO VARIOUS MODULES OF THE DFSA RULEBOOK RELATING TO:

Trust Service Providers; Collective Investment Funds; Recognised Members; Sponsors and Compliance Advisers; Branch Offices; Matched Principals; Ancillary Service Providers; Licenced Representatives; Transactions in Respect of Funds; Investment Trust and REITs; Annual Reporting Periods; Prime Brokers.

## OTHER INITIATIVES

The Division played a leading role in the co-ordination and review of the IOSCO, Basel, FATF and IAIS self assessments to ensure legal accuracy and consistency. The Division specifically responded to the IOSCO self assessment questions relating to funds. The Division was responsible for drafting all of the legislative and rule amendments resulting from the IOSCO, Basle, FATF and IAIS self assessments. The Division played a leading role in preparing supporting documentation for the IMF FSAP, January 2007.

The Division made a major contribution in leading, developing and managing the TRL program. Its staff reviewed all TRL training materials and presented a number of elements of the program.

Although the DIFC Trust Law was drafted by the Division and enacted in 2005, the DFSA was given the Society of Trust and Estate Practitioners award in 2006 for the Law as the Best Government Initiative of the Year. The STEP award, presented in London, highlights excellence among private client solicitors, accountants, barristers, bankers and trust managers and furthers the DFSA objective of developing the DIFC as an internationally respected financial centre.

Significant effort was also dedicated to completing the improvement initiative launched in 2005. The Division worked closely with Projects and Risk Management to assess Division processes to identify performance improvement objectives. Several process changes were implemented to clarify responsibilities and reflect set service standards for the effective and timely delivery of quality legal services to operating divisions. To monitor and measure the Division's performance against these standards, an internal logging data mechanism was developed and implemented. Further improvement changes were implemented regarding the Rules and Waivers Committee, Regulatory Policy Committee

and Complanet (the service provider for uploading and maintaining current DFSA Laws and Rules on our website).

The Division continues to work closely with Complanet to ensure all DFSA Laws and Rules on the DFSA website are current and accurate. The work carried out by Complanet, with and for the DFSA, and the expansion of Complanet's Middle East compliance and regulatory services and clients, has greatly increased the visibility of the DFSA's Regulatory Regime in the regional and international financial services sector.

\*Effective 1 November 2006, many of the activities and functions of the previous Office of General Counsel form part of the Policy and Legal Services Division. Consequently, save for International Relations, the 2006 activities of the Office of General Counsel are reported here.

#### **SERVICE STANDARDS AND PERFORMANCE**

Standard	Target	Performance
Proposals substantially agreed in consultation	90%	95%

# BOARD SECRETARIAT AND GENERAL COUNSEL

## INTERNATIONAL RELATIONS

### KEY ACHIEVEMENTS IN 2006

Strong co-operative and information sharing relationships with other regulatory and enforcement authorities is critical to the effective regulation of the financial services industry in the DIFC and to ensuring confidence in its integrity. This is particularly important as a number of international firms authorised by the DFSA are subject to financial services regulation in other jurisdictions. Accordingly, all aspects of the DFSA's International Relations have been accorded a high priority which resulted in a very active and successful 2006. International Relations worked closely throughout the year with all DFSA Divisions, particularly Enforcement, to provide assistance to numerous international regulatory and enforcement bodies, even when the information requested was not directly accessible or available to the DFSA. The response has been very positive and has enhanced the DFSA's international and regional reputation as a regulator firmly committed to inter-agency co-operation and the prevention of misconduct, money laundering and terrorist financing in the financial services sector.

One of the most significant achievements was an endorsement and invitation from the Chairmen of IOSCO's 3 governing Committees to the DFSA to become a signatory to the IOSCO Multilateral MoU in June 2006. The DFSA is the first and only GCC jurisdiction which is a signatory to the IOSCO Multilateral MoU. This approval followed a robust assessment of the DFSA's application conducted over 5 months by a specialist team from 4 countries, confirmed by a group from another 14 jurisdictions. Becoming a signatory to the IOSCO MMOU sets the benchmark for international co-operation among securities regulators and already includes the leading authorities among its members.

In addition, the following bilateral MoUs were negotiated and finalised in 2006 between the DFSA and its international counterparts. Of particular importance for regional co-operation and enforcement were MoUs with 2 key local agencies, the Dubai Police (signed in 2005) and the Public Prosecution - Dubai (signed in 2006).

- Financial Services Authority (FSA), UK. In London, 28 February 2006
- Securities and Exchange Commission (SEC), Thailand. At the DIFC, 12 March 2006
- Jersey Financial Services Commission (JFSC). At the DIFC, 13 March 2006
- Financial Supervisory Commission (FSC), South Korea. In Seoul, 11 April 2006
- Insurance Commission (IC), Jordan. In Amman, 4 June 2006
- Public Prosecution - Dubai. In Dubai, 12 July 2006
- Securities Commission (SC), Malaysia. In Kuala Lumpur, 15 August 2006
- Capital Market Authority (CMA), Egypt. In Cairo, 5 September 2006

- Australian Securities and Investments Commission (ASIC). In Sydney, 12 September 2006
- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany. At the DIFC, 30 November 2006.

A list of the current MoUs the DFSA has signed is attached in Appendix 3.

The DFSA also maintained its commitments to the international standard setting bodies. It accepted an invitation to become a Member of the Technical Committee of the IAIS and contributed to work on a number of IAIS sub-Committees, including participating in an initiative to establish a multilateral MoU for the insurance sector.

The DFSA is also an Associate Member of the Islamic Financial Services Board and an Observer member of the Accounting and Auditing Standards Organisation for Islamic Financial Institutions (AAOIFI).

As a member of the EMC of IOSCO, the DFSA participated in the work of the Implementation Taskforce, the principal working group dealing with assessment of international principles for securities regulators. As a member of IOSCO's Africa and Middle East Regional Committee, the DFSA hosted a training seminar for 45 regulators representing 17 jurisdictions from the region.

## CORPORATE SERVICES AND OPERATIONS

### HUMAN RESOURCES (HR)\*

#### KEY ACHIEVEMENTS IN 2006

The launch of the Tomorrow's Regulatory Leaders Program was a major achievement for the DFSA in 2006. The program was designed to be a 'best in class' initiative to secure the future growth and development of the Authority. The 2 year program for Emirati graduates was developed in-house but also draws on external subject matter experts.

A further achievement was the introduction of the Performance Management System (PMS). It provides the structure through which individual Key Performance Indicators (KPIs) are linked to the DFSA's objectives and through which employees are assessed. The program supports the emphasis on effectiveness and efficiency in each Division and facilitates the merit-based reward structure.

The DFSA was active in building capacity in terms of resource growth in 2006. The organisation grew from 68 employees at year end 2005 to 99 at year end 2006, with the majority being in the regulatory teams.

\*Effective March 2006 the Human Resources Division reports directly to the Chief Executive. Consequently the Human Resources Division no longer forms part of Corporate Services and Operations although it has reported on its 2006 activities as such here.

### COMMUNICATIONS AND STRATEGIC PLANNING\*

#### KEY ACHIEVEMENTS IN 2006

The Communications and Strategic Planning Division supports the Regulatory Divisions, the Chairman and the Chief Executive against an overall aim of promoting public understanding of the regulation of the financial services industry, in the DIFC. The unit is responsible for internal and external communications, website content, DFSA sponsored events, speaker engagements and the DFSA business planning process.

The DFSA recognises the strategic importance of communications and steps have been taken during 2006 to strengthen the unit with the recruitment of a Manager, Communications and Strategic Planning and a Communications Officer.

During the year, the unit was responsible for developing the DFSA's first business plan and providing support and advice to the divisional heads in the development of operational plans. The process of centralising media release distribution and handling, currently out-sourced, commenced in the last quarter 2006.

\*Effective 1 November 2006 the Communications and Strategic Planning Division formed part of the Policy and Legal Services Division. Consequently, it is no longer a part of Corporate Services and Operations although it has reported on its 2006 activities as such here.

## INFORMATION TECHNOLOGY (IT)

### ACHIEVEMENTS IN 2006

The IT department delivered over 30 projects and initiatives in 2006, while also improving the back end infrastructure and overall security of the DFSA IT systems. The Division's headcount increased by 50% in the System Administration, IT Security and Helpdesk units.

Improvements were made in strategic planning, budgeting and risk awareness, facilitated by participation in all DFSA run risk and business planning workshops.

The IT department successfully documented all technical manuals, operational guides, process mapped and identified efficiencies within internal and external related processes as well as documented all disaster recovery scenarios and related protocols to address those scenarios.

The Division improved and strengthened the future capacity and robustness of its data storage, infrastructure, disaster recovery and security. This foundation will be continually improved in 2007, to reflect both business as usual (BAU) activities and the future growth requirements of the DFSA.

## PROJECTS AND RISK MANAGEMENT

### KEY ACHIEVEMENTS IN 2006

The Division successfully drove the business process review, through the year, so as to improve the DFSA's regulatory processes, standards and efficiency.

Project Management played a key role in all cross-departmental projects throughout 2006. Significant recognition of the value of the service offered and the quality of project management resources were made, by the Regulatory Departments and the DFSA Senior Management. The Division successfully delivered the launch of the CIF regime and the REITs, contributed to the abolition of the Licenced Representative regime, made revisions to the Auditor Registration regime and the ASPs regime and orchestrated the DFSA's office refurbishment.

Risk Management identified numerous risks to the DFSA and made suggestions to the remediation plans. The Division will continue to monitor the implementation of plans in 2007 and will in turn, conduct a Risk Management workshop.

## FINANCE

### KEY ACHIEVEMENTS IN 2006

The Finance Department successfully ensured that the financial statements be presented in accordance with the accounting policies set out by the DFSA. The Division implemented budgeting, MIS reporting, fee invoicing, maintained books of accounts, presented financial statements, cash and bank management, payroll processing, procurement of goods and services and maintained the fixed assets register.

During 2006, the team played a significant role in implementing and optimising the use of the key software packages. Post implementation reviews of the systems and internal audit were conducted by Deloitte and Touche, with no major risks identified. Clean reports received from Deloitte and Touche were presented to the DFSA Audit and Risk Committee.

In order to ensure the smooth functioning of the department and improve efficiencies, strong internal controls were established in key areas, namely cash flow, fee invoicing, purchase orders, fixed assets, payroll, gratuity and final settlements.

## OFFICE ADMINISTRATION

### KEY ACHIEVEMENTS IN 2006

The Administration team's objective of providing a professional office environment to staff and visitors to the DFSA was successfully achieved throughout the year.

The office refurbishment project, initiated to accommodate the growth in staff numbers through to the end of 2007, was completed prior to the scheduled completion date. The project created additional desks, Executive offices, meeting rooms, and further storage space. Structural modifications were carried out to the Executive offices so as to improve the quality and functionality of environment.

The safety of all DFSA staff and visitors continued to be a major priority for the DFSA therefore, the Division ensured that the existing Fire Systems and Emergency First Aid equipment were regularly monitored, serviced and routine inspections be made. The official DFSA Emergency Guide, that corresponds to the DIFC Evacuation Guide, was circulated to all DFSA staff in the last Quarter of 2006.

# 2006 KEY PERFORMANCE STATISTICS

## THE DFSA IN ACTION

• Firms Authorised	75
- Islamic Financial Institutions	5
- AFs with Islamic Windows <sup>(2)</sup>	2
• Individuals Authorised	345
• Ancillary Service Providers Registered	20
• Auditors Registered	1
• Collective Investment Funds	7
• Sukuks Listed on DIFX	4
• Value of DIFX Sukuk Listings	7.63 (USD billion)

## AUTHORISATION IN 2006

• Total number of applications received	120
• Applications processed within 50 business days <sup>(3)</sup>	>75%
• Applications in progress	50
• Applications withdrawn	26
• Applications rejected	0

## SUPERVISION IN 2006

• Risk Assessments of Authorised Firms	27
• Risk Assessments initiated within timeframe	96%
- Average processing time (business days)	26
• Licence Variations	8
• Average processing time (business days)	24

## MARKETS IN 2006

• Reporting Entities	15
• DIFX Listings	13
• DIFX Listings Documents and Decisions reviewed	14
- Listing documents and decisions reviewed within 5 business days	100%
• Notifications of Securities Offers from the DIFC	3

2- Non-Islamic Authorised Firms licenced to offer Islamic products.

3- Firms were Authorised within 50 business days, 99% of individuals were Authorised within 1 week and 100% of Auditors were Registered within 6 weeks. Process times for ASPs NA due to regime change mid year.

## **POLICY AND LEGAL SERVICES IN 2006**

• Consultation Papers (Policy, Laws and Rules) published	19
- Proposals substantially agreed in consultation	95%
• Laws enacted	6
• Rule making instruments made	14
• Waivers and Modifications Applications	197
• Waivers and Modifications granted	186

## **INTERNATIONAL RELATIONS AND ENFORCEMENT**

• MoUs signed (inc. IOSCO MMoU)	10
• Requests for Information and Assistance from International and Regional Regulatory or Enforcement Authorities	11
• Enforcement actions	2
• DIFC Court applications and orders	2
• Response to requests for information and assistance	100%
• Success in obtaining enforcement action and court orders	100%

## **FINANCE**

• Statutory accounting and reporting obligations received and published unqualified auditors' report on time	100% compliance
• Financial performance within approved operating budget	100% compliance
• 2006 surplus as % of total expenditure	26.7%
• 2006 surplus as % of total income	21.07%

## **EDUCATION, COMMUNICATION AND COMMUNITY OUTREACH**

• AML/CTF presentations	2
• Inter-agency presentations	2
• Outreach visits	15
• Web site hits	3.4 million

## **FINANCIAL MARKETS TRIBUNAL**

• Proceedings	0
---------------	---

### REGULATORY APPEALS COMMITTEE

- Appeals 0

### THE DFSA

- Number of employees 99
- Increase from 2005 41%
- Total staff turnover 11 %
- Regulatory staff turnover 5%

## TOMORROW'S REGULATORY LEADERS (TRL) PROGRAM

TRL is a training and developmental program, designed by the DFSA, to create sustainable career opportunities for Emiratis in financial services regulation.

It is a unique and world-class program designed to facilitate commitment in the transfer of knowledge and expertise, from experienced international regulators to young Emiratis. The graduates who enter the program will be given the opportunity to pursue a future career in regulation and related disciplines, so as to be equipped for long term leadership positions as regulators.

### THE TRL PROGRAM MISSION IS:

to develop regulatory skill sets in Emiratis leading to

- sustainable employment opportunities in regulation within the DFSA and the wider region; and
- a reduction in the future dependence of the DFSA on expatriate hiring's within a framework that ensures the continued credibility and reputation of the DFSA as a world class regulator.

### THE TRL CORE PROGRAM COMPONENTS ARE:

- to offer a 2 year rolling cycle of training and development followed by contracted employment for participants who satisfy assessment criteria; and
- to target to Emiratis upon graduation from tertiary education within the UAE or offshore.

### THE PARTICIPANTS

The DFSA has placed great emphasis on the program being merit-based and will search for graduates who possess a combination of outstanding technical skills, aptitudes and attitudes.

The DFSA aspires to develop a future generation of financial sector regulators from within the UAE. Its purpose is to provide the best possible grounding and training in the financial services regulation, so that they attain regulatory credentials equal to those in the world's major capital markets.

## **APPENDICES**



# APPENDIX I

## DUBAI FINANCIAL SERVICES AUTHORITY

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	Pages
Independent auditor's report	57
Balance sheet	59
Statement of financial performance	60
Statement of changes in equity	61
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Notes to the financial statements	64



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**Independent auditor's report  
to the Board of Dubai Financial Services Authority**

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Dubai Financial Services Authority ("DFSA") which comprise the balance sheet as at 31 December 2006 and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting policies set out on pages 64 to 66 of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

**Independent auditor's report to the Board of Dubai Financial Services Authority (continued)**

of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, the accompanying financial statements have been prepared in all material respects in accordance with the accounting policies set out on pages 64 to 66 of the financial statements.



PricewaterhouseCoopers  
31 January 2007

## BALANCE SHEET AT 31 DECEMBER 2006

	Notes	2006		2005	
		AED'000	USD'000	AED'000	USD'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property and equipment	3	14,739	4,015	13,666	3,724
Intangible assets	4	<u>1,493</u>	<u>407</u>	<u>906</u>	<u>247</u>
		<u>16,232</u>	<u>4,422</u>	<u>14,572</u>	<u>3,971</u>
<b>Current assets</b>					
Prepayments and other receivables	5	8,419	2,294	4,644	1,265
Cash and cash equivalents	6	<u>71,617</u>	<u>19,514</u>	<u>41,136</u>	<u>11,209</u>
		<u>80,036</u>	<u>21,808</u>	<u>45,780</u>	<u>12,474</u>
<b>Total assets</b>		<u>96,268</u>	<u>26,230</u>	<u>60,352</u>	<u>16,445</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Contributed capital	2	24,904	6,788	18,319	4,994
Accumulated surplus		<u>30,110</u>	<u>8,202</u>	<u>5,881</u>	<u>1,600</u>
		<u>55,014</u>	<u>14,990</u>	<u>24,200</u>	<u>6,594</u>
<b>Current liabilities</b>					
Creditors, accrued and other liabilities	7	9,675	2,636	34,269	9,338
Funds received in advance from Government	2	<u>27,549</u>	<u>7,506</u>	<u>-</u>	<u>-</u>
		<u>37,224</u>	<u>10,142</u>	<u>34,269</u>	<u>9,338</u>
<b>Non-current liabilities</b>					
Provision for employees' end of service benefits	8	<u>4,030</u>	<u>1,098</u>	<u>1,883</u>	<u>513</u>
<b>Total equity and liabilities</b>		<u>96,268</u>	<u>26,230</u>	<u>60,352</u>	<u>16,445</u>

These financial statements were approved by the DFSA Board on 31 January 2007.



Signed on behalf of the DFSA Board.

The notes on pages 64 to 72 from an integral part of these financial statements

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended		Year ended	
		31 December 2006	31 December 2005	31 December 2005	31 December 2005
		AED'000	USD'000	AED'000	USD'000
Appropriations from the Government	2	98,725	26,900	64,019	17,442
Fee income	2	14,734	4,015	6,893	1,878
Other income		<u>1,541</u>	<u>420</u>	<u>570</u>	<u>155</u>
Total income		<u>115,000</u>	<u>31,335</u>	<u>71,482</u>	<u>19,475</u>
General and administration expenses	9	(80,298)	(21,880)	(53,657)	(14,620)
Board of Directors' expenses	11	<u>(10,473)</u>	<u>(2,853)</u>	<u>(9,266)</u>	<u>(2,524)</u>
Total expenses		<u>(90,771)</u>	<u>(24,733)</u>	<u>(62,923)</u>	<u>(17,144)</u>
Surplus for the year		<u>24,229</u>	<u>6,602</u>	<u>8,559</u>	<u>2,331</u>

## STATEMENT OF CHANGES IN EQUITY

	Contributed Capital		Accumulated (deficit)/surplus		Total	
	AED'000	USD'000	AED'000	USD'000	AED'000	USD'000
<b>Year ended 31 December 2005</b>						
At 1 January 2005	1,641	448	(2,678)	(731)	(1,037)	(283)
Additional capital contributed (Note 2)	16,678	4,546	-	-	16,678	4,546
Surplus for the year	<u>-</u>	<u>-</u>	<u>8,559</u>	<u>2,331</u>	<u>8,559</u>	<u>2,331</u>
<b>At 31 December 2005</b>	<u>18,319</u>	<u>4,994</u>	<u>5,881</u>	<u>1,600</u>	<u>24,200</u>	<u>6,594</u>
<b>Year ended 31 December 2006</b>						
At 1 January 2006	18,319	4,994	5,881	1,600	24,200	6,594
Additional capital contributed (Note 2)	6,585	1,794	-	-	6,585	1,794
Surplus for the year	<u>-</u>	<u>-</u>	<u>24,229</u>	<u>6,602</u>	<u>24,229</u>	<u>6,602</u>
<b>At 31 December 2006</b>	<u>24,904</u>	<u>6,788</u>	<u>30,110</u>	<u>8,202</u>	<u>55,014</u>	<u>14,990</u>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended		Year ended	
		31 December 2006	31 December 2005	31 December 2005	31 December 2005
		AED'000	USD'000	AED'000	USD'000
<b>Operating activities</b>					
Surplus for the year		24,229	6,602	8,559	2,331
Adjustments for the following item					
Depreciation	3	4,364	1,190	2,755	750
Amortisation	4	528	144	113	31
Loss on sale of property and equipment		30	8	159	44
Provision for employees' end of service benefits	8	2,505	683	1,591	433
Provision for employees' end of service benefits transferred from DIFCA		-	-	89	24
Interest income		(1,541)	(420)	(570)	(155)
Operating cash flows before payment of employees' end of service benefits and movements in working capital		30,115	8,207	12,696	3,458
Payment of employees' end of service benefits	8	(358)	(98)	(952)	(259)
Changes in working capital :					
Prepayments and other receivables	5	(3,711)	(1,012)	(3,509)	(956)
Creditors, accruals and other liabilities	7	(24,594)	(6,702)	30,306	8,259
<b>Net cash provided by operating activities</b>		1,452	395	38,541	10,502

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

	Notes	Year ended		Year ended	
		31 December 2006		31 December 2005	
		AED'000	USD'000	AED'000	USD'000
<b>Investing activities</b>					
Purchase of property and equipment	3	(5,818)	(1,585)	(15,659)	(4,268)
Proceeds from sale of property and equipment		3	1	50	14
Purchase of intangible assets	4	(767)	(209)	(1,019)	(278)
<b>Net cash used in investing activities</b>		<u>(6,582)</u>	<u>(1,793)</u>	<u>(16,628)</u>	<u>(4,532)</u>
<b>Financing activities</b>					
Interest received		1,477	403	520	142
Additional contributed capital		6,585	1,794	16,678	4,546
Funds received in advance from Government	2	27,549	7,506	-	-
Cash generated from financing activities		<u>35,611</u>	<u>9,703</u>	<u>17,198</u>	<u>4,688</u>
<b>Net increase in cash and cash equivalents</b>		<u>30,481</u>	<u>8,305</u>	<u>39,111</u>	<u>10,658</u>
Cash and cash equivalents, beginning of the year	6	<u>41,136</u>	<u>11,209</u>	<u>2,025</u>	<u>551</u>
<b>Cash and cash equivalents, end of the year</b>	6	<u>71,617</u>	<u>19,514</u>	<u>41,136</u>	<u>11,209</u>

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

### **I LEGAL STATUS AND ACTIVITIES**

The Dubai Financial Services Authority ("DFSA"), was established by Dubai Law No (9) of 2004 as an independent regulatory authority responsible for the regulation of financial and related activities at the Dubai International Financial Centre ("DIFC"). In accordance with Dubai Law No. (9) of 2004, the DFSA is and will continue to be independently funded by the Government of Dubai ("the Government") to enable it to exercise its powers and perform its functions.

### **2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are as follows:

#### **BASIS OF PREPARATION**

The financial statements have been prepared under the historical cost convention.

The functional currency of the DFSA, being the currency in which the majority of its transactions are denominated, is the UAE Dirhams (AED). For presentation purposes only, these financial statements have also been translated into US Dollars at the fixed rate of exchange of US Dollar 1 = AED 3.67.

#### **FEE INCOME**

Application fees, which are non-refundable, are recognised as income when received. Annual fees are recognised as income over the period to which they relate.

#### **CONTRIBUTED CAPITAL AND APPROPRIATIONS FROM THE GOVERNMENT**

Funds received from the Government towards the acquisition of property and equipment and intangible assets are treated as contributed capital and those received for meeting budgeted operational expenditure for the year are recognised in the statement of financial performance as appropriations from the Government. Funds received from the Government in respect of the following year are treated as funds received in advance and are recognised in the statement of financial performance in the following year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### EMPLOYEE BENEFITS

A provision is made for the estimated liability for annual leave costs as a result of services rendered by eligible employees up to the balance sheet date. This provision is included in employee related liabilities.

Provision is made for the full amount of end of service benefits due to non-UAE nationals, in accordance with the Employment Law – DIFC Law No. (4) of 2005, for their periods of service up to the balance sheet date. This provision is included in non-current liabilities. Pension contributions in respect of UAE nationals under a defined contribution scheme are recognised as an expense in the period to which they relate.

#### PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

Leasehold improvements	5 years
Fixtures and fittings	3 years
Office equipment	3 years
Computer equipment	3 years
Motor vehicles	3 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining the surplus/deficit for the year. Repairs and renewals are charged to the statement of financial performance when the expense is incurred.

#### INTANGIBLE ASSETS

The intangible assets are stated at cost and are amortised over their expected useful lives of 3 years.

#### FEES RECEIVABLE

Fees receivable are carried at anticipated realisable value. Specific provision is made for debts considered doubtful for recovery. Bad debts are written off during the period in which they are identified.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**  
(CONTINUED)

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CASH AND CASH EQUIVALENTS**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, in current accounts with bank and bank call deposits with original maturity of less than three months.

**PROVISIONS**

Provisions are recognised when DFSA has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006  
(CONTINUED)

3 PROPERTY AND EQUIPMENT

	Leasehold improvements	Fixtures and fittings	Office equipment	Computer equipment	Motor vehicles	Capital work in progress	Total
<u>In AED'000</u>							
<b>Cost</b>							
At 1 January 2006	10,457	2,648	414	1,714	229	1,355	16,817
Additions	2,018	1,333	367	2,100	-	-	5,818
Disposal	(41)	-	(29)	(11)	-	-	(81)
Transfer	1,007	-	-	-	-	(1,007)	-
Transfer to intangible asset	-	-	-	-	-	(348)	(348)
<b>At 31 December 2006</b>	<u>13,441</u>	<u>3,981</u>	<u>752</u>	<u>3,803</u>	<u>229</u>	<u>-</u>	<u>22,206</u>
<b>Depreciation</b>							
At 1 January 2006	1,564	723	240	592	32	-	3,151
Charge for the year Disposal	2,366	1,112	123	687	76	-	4,364
	(8)	-	(29)	(11)	-	-	(48)
<b>At 31 December 2006</b>	<u>3922</u>	<u>1835</u>	<u>334</u>	<u>1268</u>	<u>108</u>	<u>-</u>	<u>7,467</u>
<b>Net book amount</b>							
<b>At 31 December 2006</b>	<u>9,519</u>	<u>2,146</u>	<u>418</u>	<u>2,535</u>	<u>121</u>	<u>-</u>	<u>14,739</u>
<b>At 31 December 2005</b>	<u>8,893</u>	<u>1,925</u>	<u>174</u>	<u>1,122</u>	<u>197</u>	<u>1,355</u>	<u>13,666</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**  
(CONTINUED)

**3 PROPERTY AND EQUIPMENT (CONTINUED)**

	Leasehold improvements	Fixtures and fittings	Office equipment	Computer equipment	Motor vehicles	Capital work in progress	Total
<u>In USD'000</u>							
<b>Cost</b>							
At 1 January 2006	2,850	723	113	466	62	369	4,583
Additions	550	363	100	572	-	-	1,585
Disposal	(11)	-	(8)	(3)	-	-	(22)
Transfer	274	-	-	-	-	(274)	-
Transfer to intangible asset	-	-	-	-	-	(95)	(95)
At 31 December 2006	<u>3,663</u>	<u>1,086</u>	<u>205</u>	<u>1,035</u>	<u>62</u>	<u>-</u>	<u>6,051</u>
<b>Depreciation</b>							
At 1 January 2006	423	199	66	162	9	-	859
Charge for the year Disposal	645	303	34	187	21	-	1,190
	(2)	-	(8)	(3)	-	-	(13)
At 31 December 2006	<u>1,066</u>	<u>502</u>	<u>92</u>	<u>346</u>	<u>30</u>	<u>-</u>	<u>2,036</u>
<b>Net book amount</b>							
At 31 December 2006	<u>2,597</u>	<u>584</u>	<u>113</u>	<u>689</u>	<u>32</u>	<u>-</u>	<u>4,015</u>
At 31 December 2005	<u>2,427</u>	<u>524</u>	<u>47</u>	<u>304</u>	<u>53</u>	<u>369</u>	<u>3,724</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006  
(CONTINUED)**

**4 INTANGIBLE ASSETS**

	2006 AED'000	2006 USD'000	2005 AED'000	2005 USD'000
<b>Cost</b>				
At 1 January	1,019	278	-	-
Additions	767	209	1,019	278
Transfer from capital work in progress	<u>348</u>	<u>95</u>	<u>-</u>	<u>-</u>
At 31 December	<u>2,134</u>	<u>582</u>	<u>1,019</u>	<u>278</u>
<b>Amortisation</b>				
At 1 January	113	31	-	-
Amortisation	<u>528</u>	<u>144</u>	<u>113</u>	<u>31</u>
At 31 December	<u>641</u>	<u>175</u>	<u>113</u>	<u>31</u>
<b>Net book amount at 31 December</b>	<u>1,493</u>	<u>407</u>	<u>906</u>	<u>247</u>

Intangible assets represent purchased software.

**5 PREPAYMENTS AND OTHER RECEIVABLES**

	2006 AED'000	2006 USD'000	2005 AED'000	2005 USD'000
Prepayments	7,429	2,024	3,737	1,018
Other receivables	65	18	327	89
Staff advances	<u>925</u>	<u>252</u>	<u>580</u>	<u>158</u>
	<u>8,419</u>	<u>2,294</u>	<u>4,644</u>	<u>1,265</u>

**6 CASH AND CASH EQUIVALENTS**

	2006 AED'000	2006 USD'000	2005 AED'000	2005 USD'000
Cash in hand	2	1	3	1
Current account with bank	37,484	10,213	11,590	3,158
Short term fixed deposits	<u>34,131</u>	<u>9,300</u>	<u>29,543</u>	<u>8,050</u>
	<u>71,617</u>	<u>19,514</u>	<u>41,136</u>	<u>11,209</u>

All bank balances are held with a bank licenced in the UAE. The year end interest rate on short-term fixed deposits was 4.89% (2005: 3.97%) per annum.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006  
(CONTINUED)**

**7 CREDITORS, ACCRUED AND OTHER LIABILITIES**

	2006 AED'000	2006 USD'000	2005 AED'000	2005 USD'000
Trade creditors	1,898	517	2,270	619
Employee related accruals	619	169	408	111
Other accruals	1,250	341	1,513	412
Payable to a Government authority	116	31	29,228	7,964
Fee income received in advance	<u>5,792</u>	<u>1,578</u>	<u>850</u>	<u>232</u>
	<u>9,675</u>	<u>2,636</u>	<u>34,269</u>	<u>9,338</u>

The amount payable to a Government authority 2005 represented the liability to the Dubai International Financial Centre Authority (DIFCA) mainly towards rent, leasehold improvements and other expenses.

**8 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS**

	2006 AED'000	2006 USD'000	2005 AED'000	2005 USD'000
At the beginning of the year	1,883	513	1,155	315
Transferred during the year	-	-	89	24
Provision made during the year (Note 10)	2,505	683	1,591	433
Payments during the year	<u>(358)</u>	<u>(98)</u>	<u>(952)</u>	<u>(259)</u>
At the end of the year	<u>4,030</u>	<u>1,098</u>	<u>1,883</u>	<u>513</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**  
(CONTINUED)

**9 GENERAL AND ADMINISTRATION EXPENSES**

	Year ended 31 December 2006		Year ended 31 December 2005	
	AED'000	USD'000	AED'000	USD'000
Staff costs (Note 10)	60,368	16,450	36,426	9,925
Training, conferences and seminars	2,016	549	756	206
Office rent	4,679	1,275	3,330	907
Marketing expenses	975	266	1,067	290
Depreciation (Note 3)	4,364	1,190	2,755	750
Amortisation (Note 4)	528	144	113	31
Recruitment costs	2,872	783	3,168	864
Legal, consultancy and professional fees	1,521	414	4,091	1,115
Communication cost	714	195	295	81
Finance cost	65	18	276	75
Vehicle maintenance	48	13	33	9
Loss on disposal of property and equipment	30	8	158	43
Other	<u>2,118</u>	<u>575</u>	<u>1,189</u>	<u>324</u>
	<u>80,298</u>	<u>21,880</u>	<u>53,657</u>	<u>14,620</u>

**10 STAFF COSTS**

	Year ended 31 December 2006		Year ended 31 December 2005	
	AED'000	USD'000	AED'000	USD'000
Salaries	37,330	10,172	21,892	5,965
Other benefits	20,533	5,595	12,943	3,527
Employees' end of service benefits (Note 8)	<u>2,505</u>	<u>683</u>	<u>1,591</u>	<u>433</u>
	<u>60,368</u>	<u>16,450</u>	<u>36,426</u>	<u>9,925</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006  
(CONTINUED)**

**11 BOARD OF DIRECTORS' EXPENSES**

	Year ended		Year ended	
	31 December 2006		31 December 2005	
	AED'000	USD'000	AED'000	USD'000
Retainer fees	4,119	1,122	3,523	960
Attendance fees	2,332	635	2,319	632
Travelling	1,618	441	1,427	388
Others	<u>2,404</u>	<u>655</u>	<u>1,997</u>	<u>544</u>
	<u>10,473</u>	<u>2,853</u>	<u>9,266</u>	<u>2,524</u>

**12 OPERATING LEASE COMMITMENTS**

The lease commitments under non-cancellable operating leases are as follows:

	2006	2006	2005	2005
	AED'000	USD'000	AED'000	USD'000
Not later than 1 year	3,754	1,023	3,754	1,023
Later than 1 year and no later than 5 years	<u>7,508</u>	<u>2,046</u>	<u>11,262</u>	<u>3,069</u>
	<u>11,262</u>	<u>3,069</u>	<u>15,016</u>	<u>4,092</u>

**13 REMITTANCE TO GOVERNMENT**

At the meeting of the Board of Directors held on 31 January 2007, the Board approved the remittance to the Government of Dubai of AED22,020,000 (USD6,000,000) from accumulated surplus. Accordingly, the remittance will be reflected in the financial statements of the DFSA for the year ending 31 December 2007.

## APPENDIX 2

### BOARD AND SENIOR OFFICERS REMUNERATION DISCLOSURE

The following table sets forth the total remuneration received or due and receivable for the fiscal year ended December 31 2006 and December 31 2005 by the Board and Senior Officers of the DFSA.

#### REMUNERATION OF THE CHAIRMAN AND NON-EXECUTIVE BOARD MEMBERS:

##### Remuneration bands

Amounts in USD	2006 Board Members	2005 Board Members
100,001 to 150,000	3	4
150,001 to 200,000	7	6
200,001 to 250,000	0	0
250,001 to 300,000	1	1
	11	11

	2006 USD	2005 USD
The aggregate amount of total remuneration of Non-Executive Board members shown above:	1,866,150	1,633,918

#### NOTES:

- (1) Remuneration is pro-rated based on actual duration of service during the year
- (2) Remuneration of Non-Executive Board Members is comprised primarily of an annual retainer plus meeting attendance fees (for meetings of the full Board and its Committees). Travel allowances are also paid. Board retainer fees during 2006 were USD 75,625 (Chairman USD 209,000). Board meeting attendance fees were USD 5,500 per meeting (Chairman USD 11,000)
- (3) Committee membership fees during 2006 were USD 5,500 per Committee (Committee Chairman fee USD 11,000). Committee meeting attendance fees were USD 2,200 per meeting
- (4) The Chairman of the DFSA does not receive fees for membership of Committees or for attendance at Committee meetings. The Chief Executive of the DFSA does not receive fees for membership of the Board or its Committees or for attendance at Board meetings or Committee meetings.

## REMUNERATION OF THE CHIEF EXECUTIVE AND SENIOR OFFICERS:

### Remuneration bands

Amounts in USD	2006 Executives	2005 Executives
50,001 to 100,000	2	0
100,001 to 200,000	1	2
200,001 to 300,000	3	8
300,001 to 400,000	7	2
400,001 to 800,000	5	0
> 800,000	1	1
	19	13

	2006 USD	2005 USD
The aggregate amount of total remuneration of Executives shown above:	7,168,858	3,932,100

Executives remuneration included in the above comprised:

	2006 USD	2005 USD
Salaries and performance bonuses	5,627,966	3,006,252
Other emoluments and benefits	1,540,892	925,848

### NOTES:

- (1) Salaries and bonuses are pro-rated based on actual duration of service during the year
- (2) Other emoluments and benefits include housing allowance, flight allowance, education allowance, premium paid for medical and life insurance and end of service accrual for the year 2006.

## APPENDIX 3

### MEMORANDA OF UNDERSTANDING

- Financial Supervision Commission (FSC) of the Isle of Man
- Insurance and Pensions Authority (IPA) of the Isle of Man
- Emirates Securities and Commodities Authority (ESCA) of the UAE
- Dubai Police
- Capital Markets Board (CMB) of Turkey
- Commodity and Futures Trading Commission (CFTC) of the US
- Financial Services Authority (FSA) of the UK
- Securities and Exchange Commission (SEC) of Thailand
- Jersey Financial Services Commission (JFSC)
- Financial Supervisory Commission (FSC) of South Korea
- Insurance Commission (IC) of Jordan
- Public Prosecution - Dubai
- Securities Commission (SC) of Malaysia
- Capital Market Authority (CMA) of Egypt
- Australian Securities and Investments Commission (ASIC)
- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of Germany.

The DFSA is a signatory to the IOSCO MMoU. Being a signatory to the IOSCO MMoU means that the DFSA has an MoU with the following regulatory authorities that are also signatories to the MMoU:

- Alberta Securities Commission (ASC)
- Commission Bancaire et Financière of Belgium
- British Columbia Securities Commission (BCSC)
- Denmark Financial Supervisory Authority (DFSA)
- Autorité des marchés financiers of France
- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of Germany
- Capital Market Commission (CMC) of Greece
- Securities and Futures Commission (SFC) of Hong Kong

- Hungarian Financial Supervisory Authority (HFSA)
- Securities and Exchange Board of India (SEBI)
- Financial Supervision Commission (FSC) of the Isle of Man
- Israel Securities Authority (ISA)
- Commissione Nazionale per le Società e la Borsa of Italy
- Jersey Financial Services Commission (JFSC)
- Lithuanian Securities Commission (LSC)
- Malta Financial Services Authority (MFSA)
- Comision Nacional Bancaria Y De Valores (CNBV) of Mexico
- Nigerian Securities and Exchange Commission (NSEC)
- Securities Commission (SC) of New Zealand
- Ontario Securities Commission (OSC)
- Comissão do Mercado de Valores Mobiliários (CMVM) of Portugal
- Polish Securities and Exchange Commission (PSEC)
- Autorité des marchés financiers of Québec
- Monetary Authority of Singapore (MAS)
- Financial Market Authority (FMA) of Slovakia
- Financial Services Board (FSB) of South Africa
- Comisión Nacional del Mercado de Valores (CNMV) of Spain
- Securities and Exchange Commission (SEC) of Sri Lanka
- Capital Markets Board (CMB) of Turkey.

## APPENDIX 4

### LEGISLATION RELEVANT TO THE DIFC

#### FEDERAL LAW

- Article 121 of the UAE Constitution
- Federal Law No. 8 of 2004
- Federal Decree No. 35 of 2004

#### DUBAI LAW

- Dubai Law No. 9 of 2004: The Law In Respect of the Dubai International Financial Centre
- Dubai Law No.12 of 2004: The Law Establishing the Judicial Authority at the Dubai International Financial Centre

#### DIFC LAWS

- Regulatory Law
- Data Protection Law
- Markets Law
- Law Regulating Islamic Financial Business
- Trust Law
- Collective Investment Law
- Investment Trust Law
- Companies Law
- Law on the Application of Civil and Commercial Laws
- Law on the Application of DIFC Laws
- Limited Liability Partnership Law
- Contract Law
- Insolvency Law
- Arbitration Law
- General Partnership Law
- The DIFC Courts Law
- Employment Law

- Law of Security
- Personal Property Law
- Law of Damages and Remedies
- Law of Implied Terms in Contract and Unfair Terms Law
- Law of Obligations
- Law Relating to the Application of DIFC Laws
- Limited Partnership Law

#### **RULES**

- General (GEN)
- Authorisation (AUT)
- Supervision (SUP)
- Enforcement (ENF)
- Conduct of Business (COB)
- Prudential - Insurance Business (PIN)
- Prudential - Investment, Insurance Intermediation and Banking Business (PIB)
- Anti-Money Laundering (AML)
- Islamic Financial Business (ISF)
- Offered Securities Rules (OSR)
- Authorised Markets Institution Rules (AMI)
- Recognition Rules (REC)
- Price Stabilisation Rules (PRS)
- Ancillary Service Providers (ASP)
- Prescribed Forms and Notices (PFN)
- Glossary (GLO)
- Data Protection Rules (DAT)
- Prudential Returns Module (PRU)
- The DFSA Sourcebook - Application Forms and Notices (AFN)
- Collective Investment Rules (CIR)
- Takeovers Rules (TKO)

## APPENDIX 5

### AUTHORISED FIRMS LICENCED IN 2006

AUTHORISED FIRMS	DATE AUTHORISED - 2006
Oasis Crescent Capital (DIFC) Limited	28 December
The Finance Warehouse Limited	20 December
ING Bank N.V.	19 December
MENA Infrastructure Fund (GP)	17 December
State Bank of India	14 December
ATA Invest (Dubai) Limited	12 December
Al Futtaim Investment Management Limited	12 December
Malaysian Re (Dubai) Limited	10 December
Deloitte Limited Liability Partnership	07 December
Rothschild (Middle East) Limited	29 November
Natexis Banques Populaires	28 November
SAAD Financial Advisory Services Limited	26 November
Liberty Mutual Insurance Europe Limited	22 November
Algebra Capital Limited	20 November
CELFI Investment Advisors Limited	14 November
Banque de Commerce et de Placements SA	01 November
FIMBank Public Limited Company	20 October
Libertas Capital (Dubai) Limited	20 October
Gulf Merchant Group Limited	19 October
INTL Capital Limited	18 October
Prudential Asset Management Limited	18 October
DAMAC (DIFC) Company Limited	11 October
UIB Capital Limited	05 October
FFA (Dubai) Limited	04 October
Millennium Capital Limited	02 October
IDS International Limited	02 October
Clariden Asset Management (Dubai) Limited	28 September
JPMorgan Chase Bank, NA	27 September

## AUTHORISED FIRMS LICENCED IN 2006 (CONTINUED)

AUTHORISED FIRMS	DATE AUTHORISED - 2006
HSBC Bank Middle East Limited	24 September
NewDawn GSE Asset Management Limited	21 September
Henyp Investment (UAE) Limited	19 September
UBS AG	13 September
First Eastern Investment Bank Limited	01 September
Jefferies International Limited	31 August
Fortis Bank	28 August
Lehman Brothers International (Europe)	27 August
Mobility Saintore (Dubai) Limited	16 August
Kuvera Capital (Dubai) Limited	14 August
Emirates Financial Services International Limited	10 August
Goldman Sachs International	06 August
Amanah Capital Limited Liability Partnership	27 July
United Insurance Brokers (DIFC) Limited	17 July
Apex Fund Services (Dubai) Limited	13 July
DIC Asset Management Limited	12 July
TFS Dubai Limited	04 July
NBD Investment Bank Limited	20 June
Forsyth Partners Global Distributors Limited	20 June
Forsyth Partners (Middle East) Limited	20 June
ABN AMRO Bank N.V.	19 June
Volaw Trust & Corporate Services Limited	18 June
RFIB Group Limited	18 June
JLT Risk Solutions Limited	18 June
Alliance International Reinsurance Public Company	18 June
Gulf Capital Group Limited	07 June
AIG MEMSA General Insurance Company Limited	28 May
Citigroup Global Markets Limited	04 May

## AUTHORISED FIRMS LICENCED IN 2006 (CONTINUED)

AUTHORISED FIRMS	DATE AUTHORISED - 2006
Watkins Syndicate Middle East Limited	02 May
Sumitomo Mitsui Banking Corporation	01 May
SHUAA Partners Limited	27 April
Millennium Financial Advisory Limited	16 April
Mashreq Capital (DIFC) Limited	29 March
DBS Bank Limited	29 March
Alpen Capital (ME) Limited	28 March
IXIS Asset Management UK Limited	27 March
NATIXIS Middle East Limited	22 March
Abraaj Capital Limited	20 March
Injazat Capital Limited	06 March
Lloyds TSB Offshore Limited	05 March
Argent Financial Group International Limited Liability Partnership	01 March
SHUAA Capital International Limited	28 February
Morgan Stanley & Co. International Limited	23 February
NBK Capital Limited	16 February
Babcock & Brown (DIFC) Limited	16 February
Superfund Financial (Middle East) Limited	14 February
The National Investor (Dubai) Limited	18 January

## APPENDIX 6

### ANCILLARY SERVICE PROVIDERS REGISTERED IN 2006

ANCILLARY SERVICE PROVIDERS	REGISTERED IN 2006
Russell Bedford (Dubai) Limited	04 December
Deloitte Limited Liability Partnership	28 November
Allen & Overy Limited Liability Partnership	21 November
Ashok Kapur & Associates Limited	19 October
Akin Gump Strauss Hauer & Feld Limited Liability Partnership	27 September
Richards Butler Limited Liability Partnership	05 September
PricewaterhouseCoopers Limited	16 August
AGN MAK Limited	15 August
Freshfields Bruckhaus Deringer	03 August
JSA Law Limited	01 August
Morison Menon Limited	14 June
Grant Thornton Limited Liability Partnership	07 June
Conyers, Dill & Pearman Limited	30 May
Norton Rose	09 April
Afridi and Angell	09 April
Mandviwalla Zafar and McCarthy Limited Liability Partnership	04 April
Al Tamimi & Company Limited	20 March
Bin Shabib & Associates (BSA) Limited Liability Partnership	08 March
Linklaters	27 February
Ashurst	14 February

## APPENDIX 7

### AUDITORS REGISTERED IN 2006

Registered Auditor	Registered
Deloitte Limited Liability Partnership	28 November

## APPENDIX 8

### GLOSSARY

Accounting and Auditing Organisation for Islamic Financial Institutions	AAOIFI
Australian Securities and Investment Commission	ASIC
Authorised Firm	AF
Authorised Market Institution	AMI
Anti-Money Laundering	AML
Anti-Money Laundering Suspicious Cases Unit	AMLSCU
Ancillary Service Provider	ASP
Bank for International Settlements	BIS
Collective Investment Rules	CIR
Commodity Exchange Inc.	COMEX
Commodity Futures Trading Commission	CFTC
Dubai Chamber of Commerce and Industry	DCCI
Dubai Financial Services Authority	DFSA
Dubai International Financial Centre	DIFC
Dubai International Financial Centre Authority	DIFCA
Dubai International Financial Exchange	DIFX
Emirates Securities and Commodities Authority	ESCA
Financial Action Task Force	FATF
Financial Markets Tribunal	FMT
International Association of Insurance Supervisors	IAIS
Islamic Financial Services Board	IFSB
International Organisation of Securities Commissions	IOSCO
Memoranda of Understanding	MoU
Multi-lateral Memoranda of Understanding	MMoU
New York Mercantile Exchange Inc.	NYMEX
Prescribed Forms and Notices	PFN
Prudential - Investment, Insurance Intermediation and Banking Business	PIB
Regulatory Appeals Committee	RAC
Real Estate Investment Trusts	REITS
DIFC Registrar of Companies	ROC
Society of Trust and Estate Practitioners	STEP
Suspicious Transaction Report	STR
Tomorrow's Regulatory Leaders	TRL
United Arab Emirates	UAE

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