



# **The DFSA approach to regulating Islamic finance**

**Clare College, Cambridge**

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Director, Supervision

1<sup>st</sup> September 2010

# East and West

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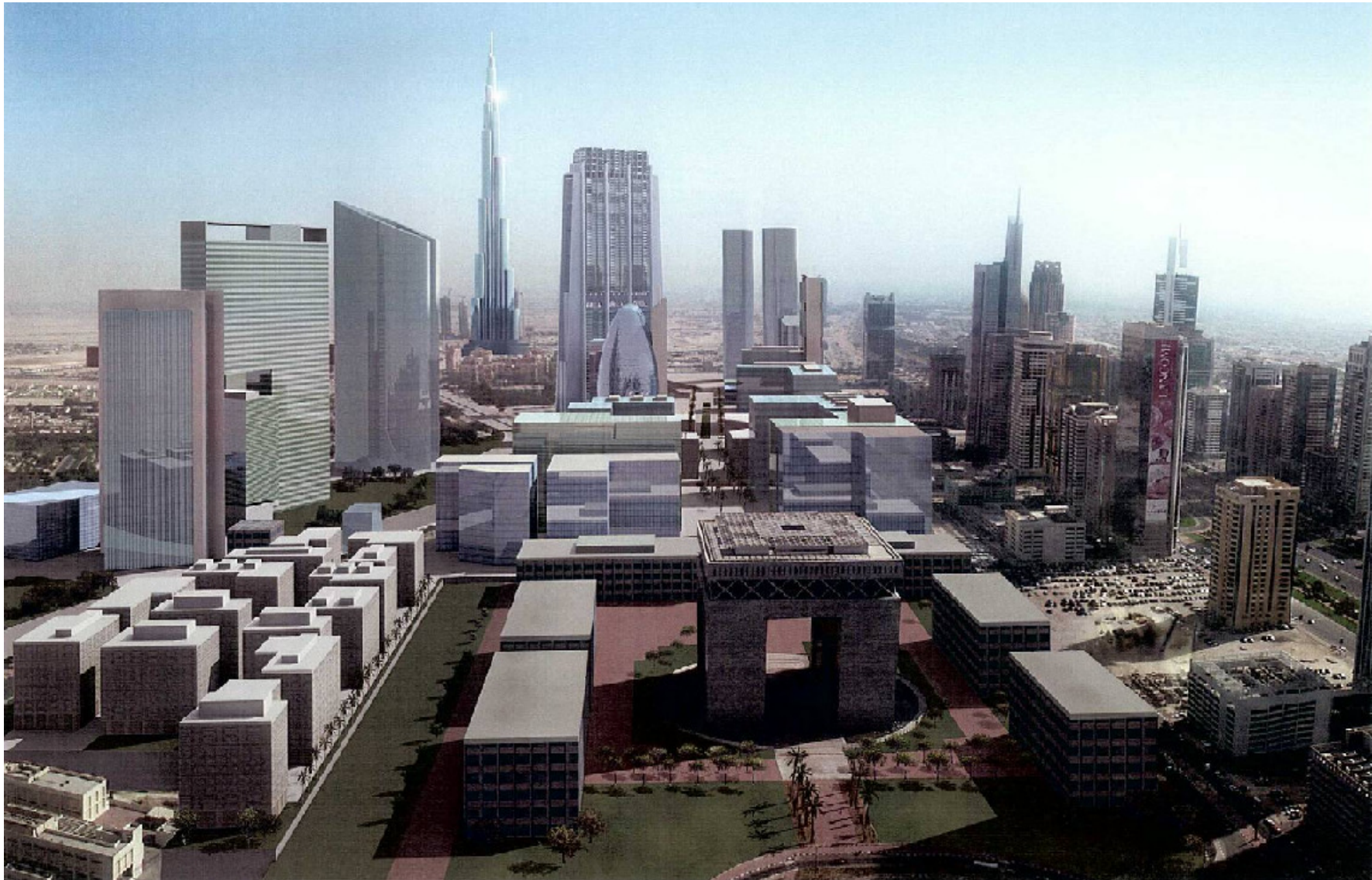
*Oh, East is East and West is West, and never the twain shall meet, till Earth and Sky stand presently at God's great Judgement Seat; but there is neither East nor West, border, nor breed, nor birth, when two strong men stand face to face, tho' they come from the ends of the earth!*

– Rudyard Kipling, The Ballad of East and West - 1895

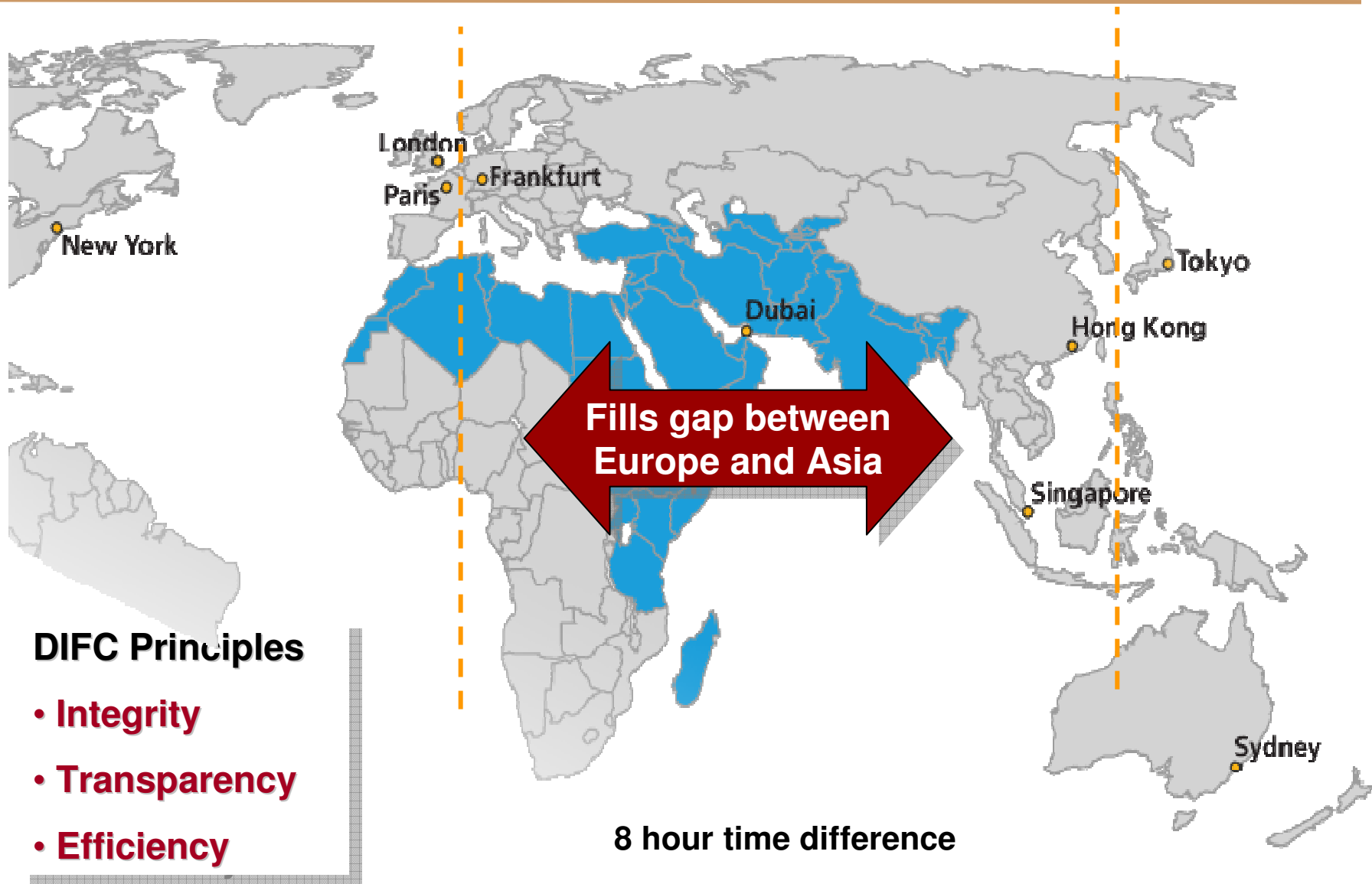
## Dubai in 1990 - DIFC District



# Dubai in 2012 - DIFC District



# Dubai International Financial Centre (DIFC) Region

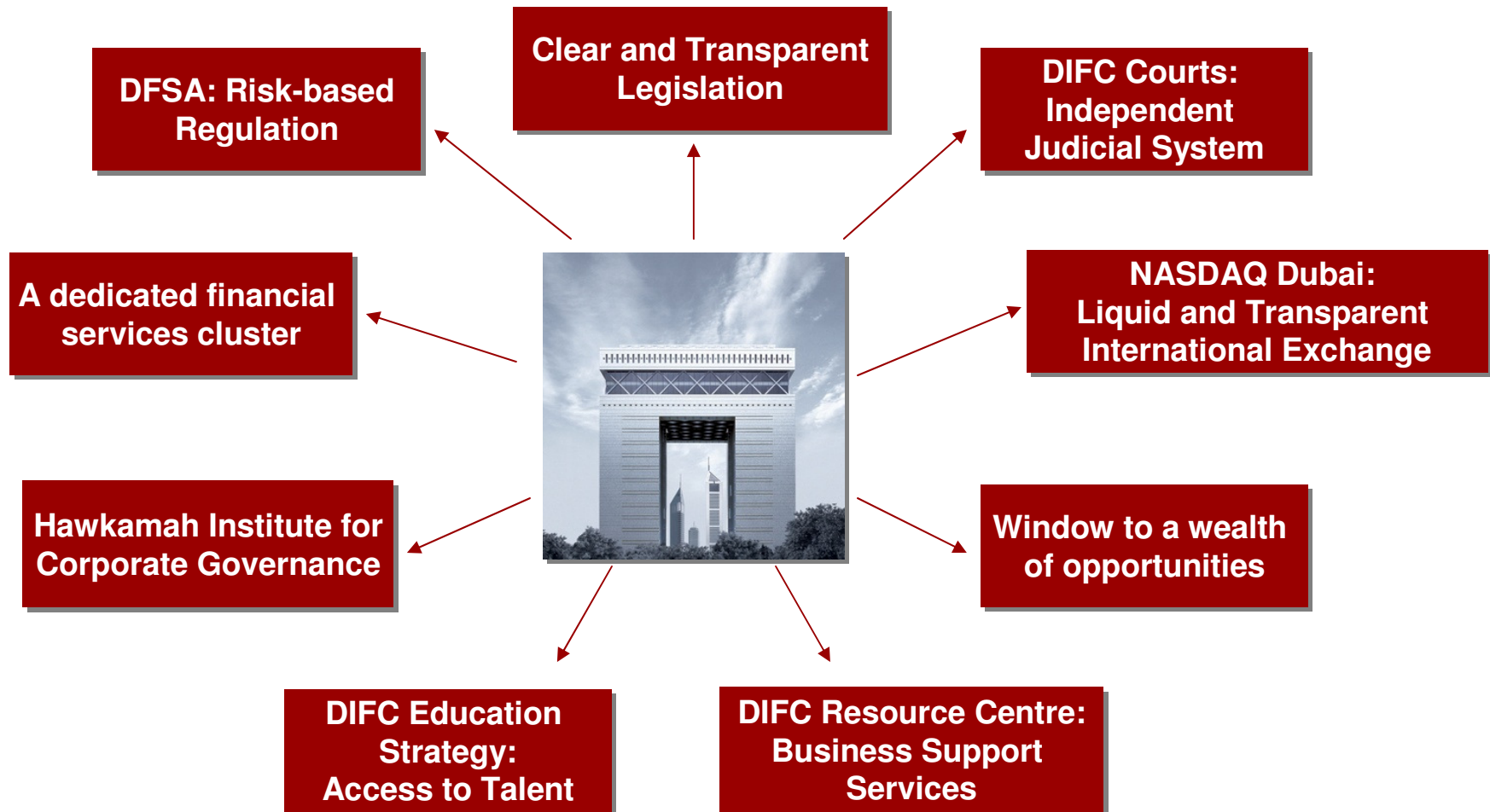


# About the DIFC

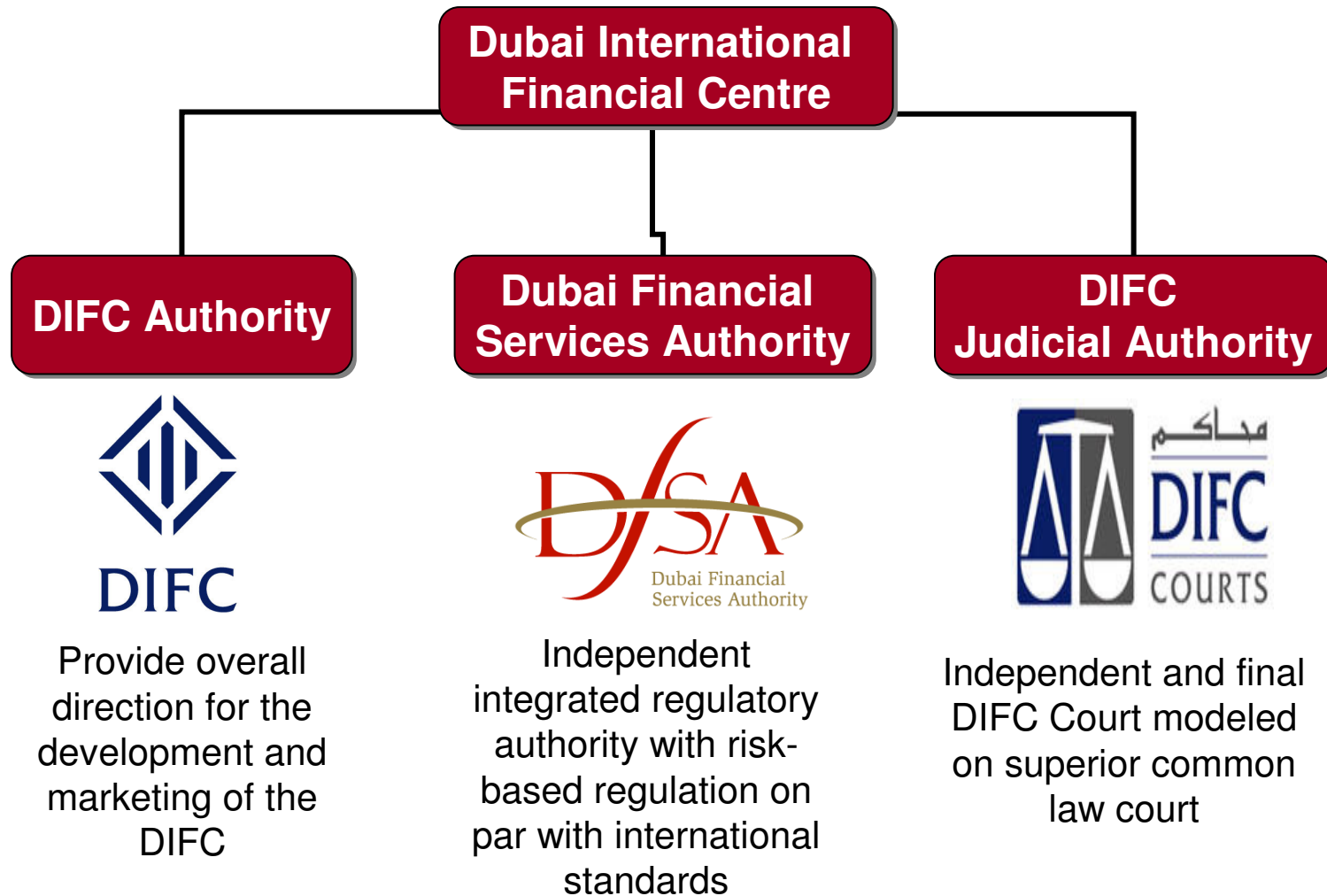


\* 50 Years and Renewable

# DIFC Value Proposition



# The Structure of the DIFC





# About the DFSA

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**The DFSA is the independent regulator of financial and ancillary services conducted through the DIFC, a purpose-built financial free-zone in Dubai**

- Independence is guaranteed by law
- Integrated regulator covering banking, securities and insurance
- Regulates using a risk-based approach
- Follows international standards of IOSCO, Basel, IAIS and FATF
- Common law framework for Rules and Law enforceable in DIFC Court
- Linked to key world capital market regulators through many bi-lateral Memoranda of Understanding (MoUs) and two multi-lateral MoUs namely IOSCO and The Boca Declaration
- Board and senior executives comprised of internationally experienced regulators from major jurisdictions

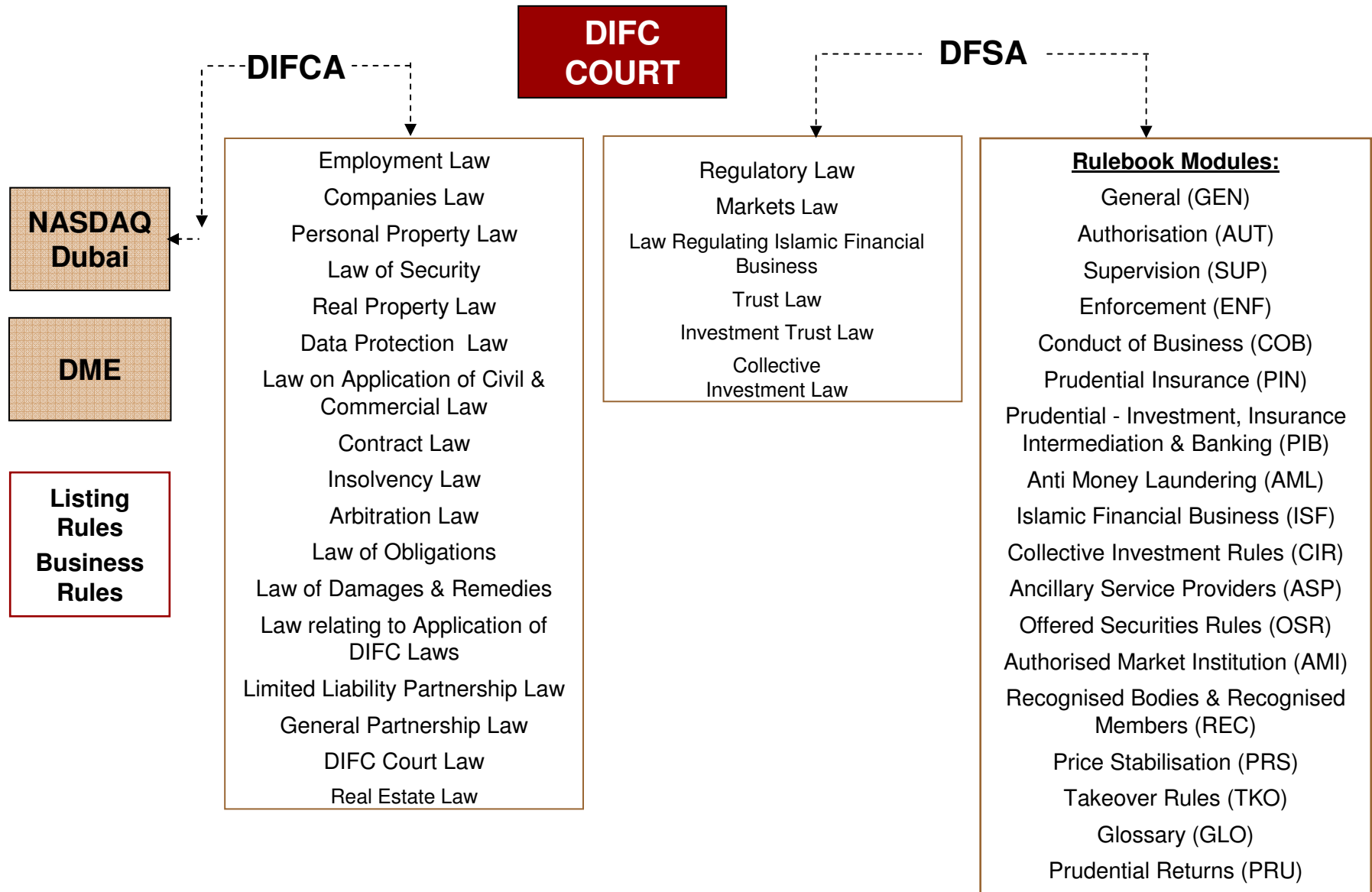


# The DFSA's Key Activities

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- Rulemaking and policy development
- Drafting financial services legislation
- Licensing, supervision and/or recognition of entities providing Financial Services in the DIFC, including:
  - NASDAQ Dubai - equities exchange
  - DME - commodities derivatives exchange
- Enforcing DFSA administered legislation

# DFSA Rulemaking and Policy Development



# Prudential Categories of Authorised Firms

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Category 1	Category 2	Category 3	Category 4
Accepting deposits or providing credit	Dealing in investments as principal	Dealing in investments as agent or Managing Assets	Arranging Credit or Deals in Investments or Arranging Custody

## Decreasing Capital Requirements and Prudential Risks

Category 5
Islamic Financial Institution

Capital requirements may vary

# Proactive approach

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- Product innovation and divergent views
- Supervision – hands on and on site focus
- Outreach training
  - Preventative medicine
- Consultation with the industry
- MoUs
- Thought leadership
  - Fair value accounting / private equity dealing / Code of Practice for Hedge Funds



## DFSA and Islamic Finance

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- Practical, proportionate
- Wholly Islamic firms and Islamic Windows
- Shari'a Systems Based approach
  - Most flexible approach
- AAOFI Standards
- No central Shari'a Supervisory Board (SSB)
  - SSB duty on Firms (SYSC)
- Active role on IFSB Working Parties

# Islamic Finance Changes

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- Purpose
  - To give the current DFSA requirements relating to Islamic Finance a more cohesive and hence a more visible and acceptable structure
- A more comprehensive Islamic Finance Rules (ISR) module to replace the current Islamic Financial Business module (*1<sup>st</sup> March 2010*)
- Web-based virtual handbook similar to the tailored handbook provided by the UK FSA (*May 2010*)



# Liaison with Industry Bodies

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- **AAOFI**
  - Place on Board
  - DFSA has adopted key AAOFI standards
- **IFSB**
  - Long track record of support for Working Parties
  - Ongoing help with new Working Parties
- **Takaful, Conduct of Business, Shari'a Governance, Liquidity Management**
  - Hosting IFSB Takaful Summit & Technical Committee in DIFC (Feb)
  - Hosting IAIS Triannual conference – Oct 2010



# Why DFSA undertook a Funds Review

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- Desire to help boost the funds industry
  - DFSA already had good insight into challenges via Supervisory feedback
  - Engineered platform for regulator to better engage the regulated
- To maximise opportunities in the DIFC
  - financial market crisis
  - global appetite for regulatory change



# Visible and Viable Angles

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- Establish an Exempt Funds Regime:
  - fast track process
  - open only to high-net-worth investors
  - initial subscription – USD50,000 or more
- Promote an Islamic hub in the DIFC – Adopt a less prescriptive yet appropriate Shari’a governance standards (Issue 7)

# Mutual recognition

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- Mutual recognition agreement for Islamic funds between Malaysian Securities Commission and DFSA - 2008



**Thank You**



**Dubai Financial Services Authority**

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