

DFSA OUTREACH INTRODUCTORY PRESENTATION 4 June 2015

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OPENING SPEECH

Ian Johnston
Chief Executive, DFSA

Vision
Mission
Regulatory Approach

To be an internationally respected regulator and a role model for financial services regulation in the Middle East
To develop, administer and enforce world-class regulation of financial services in the DIFC
To be risk-based and to avoid unnecessary regulatory burden

Strategic Themes in Action

Delivery

Execute core functions with professionalism and efficiency

Deliver world-class regulation and effective enforcement

Undertake thorough preparations for and follow-up to the FSAP and FATF assessments and provide any requested support to other UAE authorities

Be more agile through early warning systems & innovation

Focus on proportionate, DIFC-appropriate implementation of international standards. Pursue Rulebook simplification, where possible. Take relevant and appropriate enforcement action.

Maintain quality as DIFC scale increases

Refine existing warning systems to ensure responsiveness to emerging risks. Explore indicators for identifying system-wide misconduct

Pursue efficiencies without compromising on quality (e.g. refinements to risk-based regulation)

Be creative in delivering process and IT solutions as part of maintaining operating excellence

Sustainability

Positively shape our environment and organisation for the long-term

Enhance organisational robustness & resilience

Build clear, efficient & scalable regulatory & non-regulatory processes, develop better knowledge management systems, match recruitment and development to manpower needs. Improve cost recovery

Support Dubai Government Strategy & DIFC Development

Continue alignment with DIFC and Dubai Government Strategy (incl. Islamic economy initiative). Continue dialogue with DIFC bodies to support sustainable growth of the Centre

Build UAE National Capability

Continue to build regulatory capacity via the TRL & Mentoring Programme. Strive to improve Emirati representation throughout the DFSA.

Progress Resolving Jurisdictional Uncertainty

Maintain efforts to resolve on-going boundary issues so that the Centre can continue to grow

Engagement

Thoughtful and active engagement with key stakeholders:

Regulated firms & key home regulators

Undertake regulation in a consistent, transparent and risk-based manner. Continue Outreach activities to promote understanding of the regulatory regime. Maintain sound relationships with regulators in key jurisdictions and develop relationships in jurisdictions anticipated to have increased importance.

MENA/GCC Regulators

Place greater emphasis on regional engagement, representation on regional fora in keeping with the growing role of the DIFC in the region.

Dubai & UAE Authorities

Continue building relations with Dubai and UAE bodies

Global Standard Setters

Retain our standing among key global standard setters

Regulatory Priorities

Financial Crime

Be vigilant in addressing AML/CFT, sanctions and other crime issues. Strengthen existing relationships with relevant local and federal bodies to mitigate financial crime risks

Conduct & Prudential

Continue to emphasise conduct risk – a risk generally more prominent than prudential – while providing appropriate prudential attention to the firms anticipated to have rapid balance sheet growth

Standards Alignment

Demonstrate effective implementation of international regulatory standards via the FSAP & FATF process. In relevant areas, continue to align with EU standards. Uphold commitment to simplify the Rulebook.

OPENING INTRODUCTION FROM CONG

Peter Brady
CONG Member

EMERGING RISKS AND TRENDS

Khatija Haque
Head of MENA Research, Emirates NBD

SUPERVISION KEY MESSAGES

Bryan Stirewalt
Managing Director, Supervision

How will the DFSA assess a firm's culture?

Assessing a firm's culture

- Tone from the top
- Effective challenge
- Accountability
- Incentives

Supervisory Intensity Variables

Potential Impact on DFSA Objectives

- Size of business (revenue, number of clients, number of staff)
- Nature of business (deposits, client money, retail)
- Complexity (specialised activity)

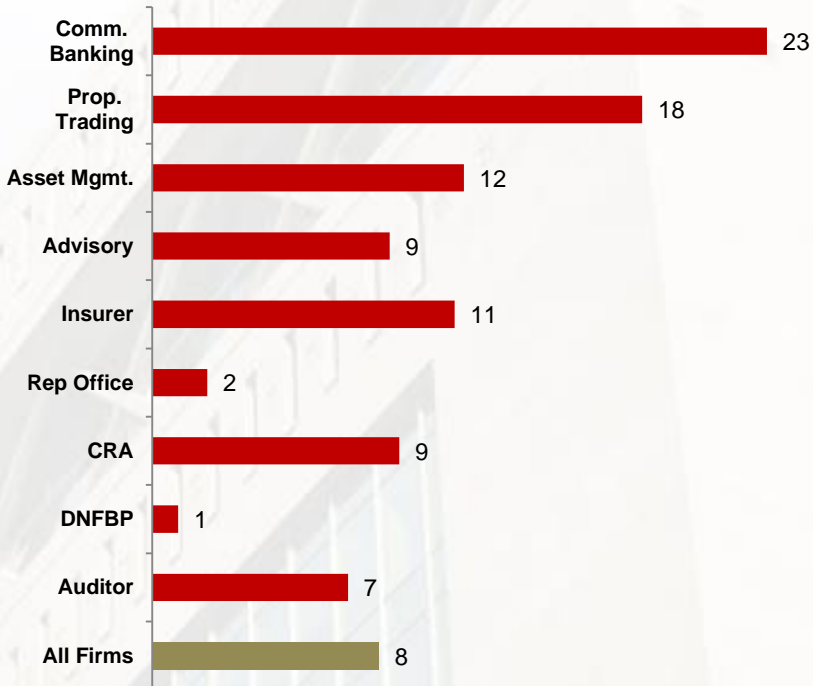
Analysis of Risk Elements

- Governance structures and quality of management
- Financial Risks
- Operational Risks
- Conduct of Business Risks
- Financial Crime Risks

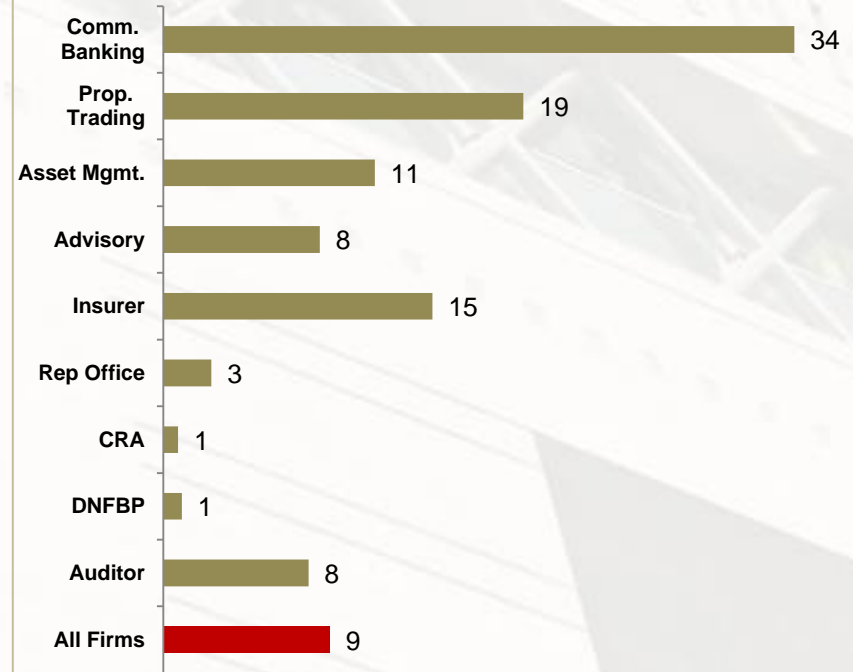
Supervisory Intensity Varies Greatly

Av. SUP Time (days) by Firm Business Model

2013



2014



DFSA POLICY UPDATE

Peter Smith
Head of Policy & Strategy

Plans for 2015 ...

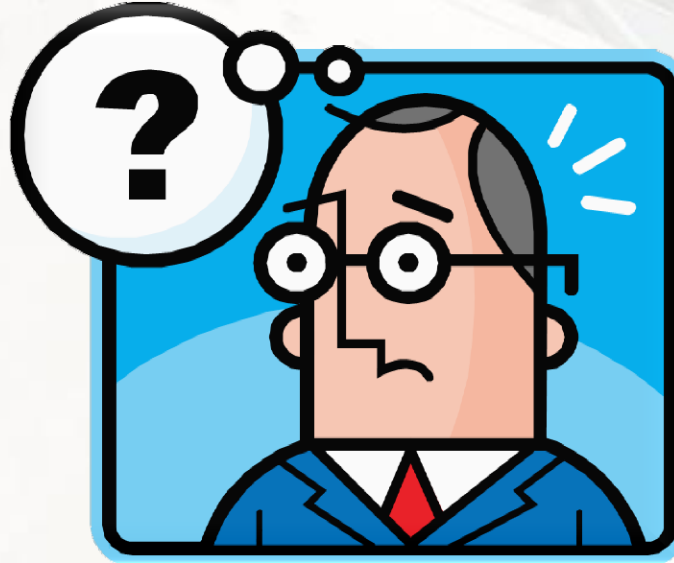
- Next stage of the Funds review
 - Property funds
- Improving our Rules for insurance-related activities
- Recovery and resolution for financial institutions and infrastructures
- Miscellaneous consultations

... And Into 2016

- AML regime enhancements
- Arranging and Representative Offices
- Suitability
- Over-the-Counter (OTC) derivatives

DFSA 2015/2016 BUSINESS PLAN SUMMARY

QUESTIONS



DFSA ENFORCEMENT UPDATE

Stephen Glynn
Head of Enforcement

Enforcement Outcomes

Themes

Regulatory Approach

Enforcement Outcomes

| Conduct | Decision |
|--|-----------------------------|
| <ul style="list-style-type: none"> • Providing false misleading and deceptive info (Art 66) • Fail to comply with investigative notices. (Art 83) | <p>Restriction Fine</p> |
| <ul style="list-style-type: none"> • Providing false misleading and deceptive info (Art 66) | <p>Restriction</p> |
| <ul style="list-style-type: none"> • Failed to act with skill, care and diligence when carrying out a licenced function. (Principle 2) • Failed to have adequate systems and controls to ensure compliance with legislation in the DIFC. (Principle 3) | <p>Fine</p> |

Directions:

- Cease on boarding new clients
- Appoint an independent 3rd party to review client on boarding arrangements
- Develop a remediation plan to review and remediate policies, procedures, systems & controls (PPSC)
- Assess all client files against remediated PPSC and remediate deficiencies

Enforcement Outcomes

| Conduct | Decision |
|---|-------------|
| <ul style="list-style-type: none">• Failing to deal appropriately with clients (AML obligations - Client Classification, Customer Due Diligence, Suitability, Client Agreements)• Failing to keep the DFSA informed of significant events (Principle 10 - Relations with Regulators)• Failing to give specified information or documents to the DFSA. (Art 69)• Fail to comply with high standards of corporate governance. (Principle 11 - Governance)• Fail to act with skill care and diligence (P2) | <p>Fine</p> |

Enforcement Outcomes

| Conduct | Decision |
|---|----------|
| <ul style="list-style-type: none">• Fail to ensure its affairs are managed efficiently and effectively by senior management and have adequate systems and controls. (Principle 3 – Management, Systems & Controls)• Fail to provide adequate resources to conduct and manage its affairs. (Principle 4 - Resources)• Concealing information to mislead the DFSA (Art 66)• Providing information that is false (Art 66)• Failing to deal in an open and co-operative manner. (P10 – Relations with Regulators) | Fine |

Themes - Risk Areas

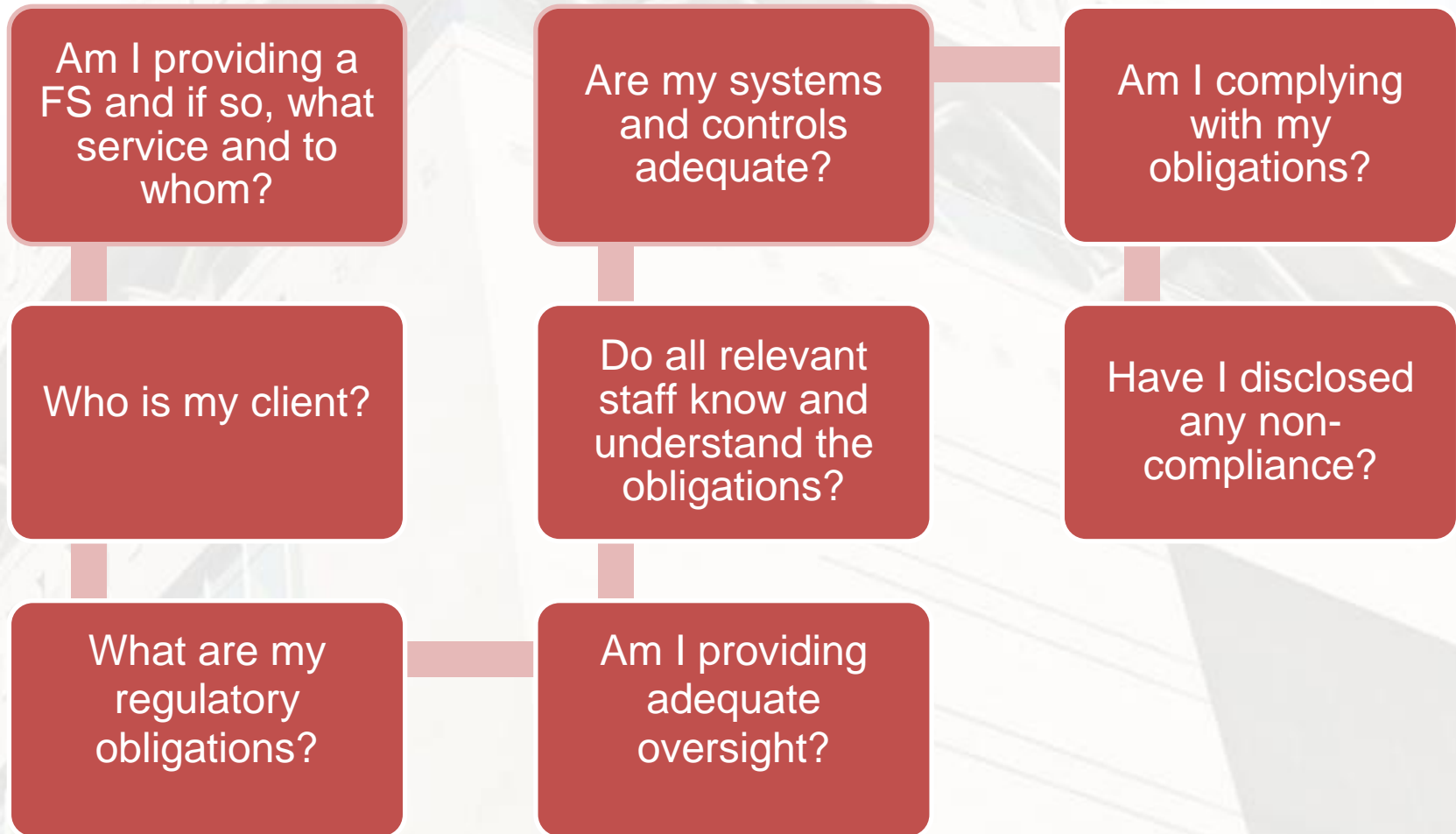


Dealing with the Clients

Corporate Governance

Dealing with the regulator

Dealing with Clients



Governance - Management, Systems and Controls (GEN 5)

Allocation of significant responsibilities

- Apportionment of significant responsibilities
- Recording of apportionment

Systems & controls

- Organisation
- Risk management
- Compliance
- Internal audit
- Business plan and strategy
- Management information
- Staff and agents
- Conduct
- Outsourcing
- Business continuity and disaster recovery
- Records
- Corporate governance
- Remuneration structure and strategies

12 Principles for Authorised Firms (GEN 4.2)

Integrity

- Observe high standards of integrity and fair dealing.

Skill, care & diligence

- Act with due skill, care and diligence.

Management, systems & controls

- Ensure its affairs are managed effectively and responsibly by senior management.
- Have adequate systems and controls to ensure compliance with DIFC legislation.

Resources

- Maintain and demonstrate existence of adequate resources (financial, system, human) to conduct and manage its affairs.

Market conduct

- Observe proper standards of conduct in financial markets.

Information & interests

- Pay due regard to customer interests and communicate information to them in a way which is clear, fair and not misleading.

Conflicts of interest

- Take all reasonable steps to ensure conflicts of interest are identified and then prevented or managed, or disclosed so that interests of a customer are not adversely affected.

Suitability

- Take reasonable care to ensure suitability of its advice and discretionary decisions for customers who are entitled to rely upon its judgment.

Customer assets & money

- Arrange proper protection for customers' assets or money.

Relations with regulators

- Deal with regulators in an open and co-operative manner and inform the DFSA of significant events.

Corporate governance

- Have a corporate governance framework appropriate to nature, scale and complexity of its business and protect the interests of its customers and stakeholders.

Remunerations practices

- Have a remuneration structure and strategies which are aligned with long term interests and appropriate to the nature, scale and complexity of its business.

6 Principles for Authorised Individuals (GEN 4.4)

Integrity

- Observe high standards of integrity and fair dealing in carrying out every Licensed Function.

Due skill, care & diligence

- Act with due skill, care and diligence in carrying out every Licensed Function.

Market conduct

- Observe proper standards of conduct in financial markets in carrying out every Licensed Function.

Relations with the DFSA

- Deal with the DFSA in an open and co-operative manner and must disclose appropriately any information of interest to the DFSA.

Management, systems & controls

- Take reasonable care to ensure the AF's business is organised so that it can be managed and controlled effectively.

Compliance

- Take reasonable care to ensure AF's business complies with DIFC legislation.

Relations with the Regulator

| | Relations with the Regulator |
|---|--|
| Principle 10 Authorised Firm (AF) | An AF must deal with Regulators in an open and co-operative manner and keep the DFSA informed for significant events or anything else which the DFSA would reasonably expect to be notified. |
| Principle 4 Authorised Individual (AI) | An AI must deal with the DFSA in an open and co-operative manner and must disclose appropriately any information which the DFSA would reasonably be expected to be notified. |
| Art 66 | Providing false or misleading information Concealing information which is likely to mislead or deceive |
| Art 67 | Requirement to disclose information, breaches or compliance with an obligation |
| Art 69 | Requirement to comply with an order, direction or prohibition. |

DFSA's Regulatory Approach

Resolution vs Enforcement

Accountability

Enforcement of Obligations

Determination of Sanctions

Decision Notices vs Enforceable
Undertakings

CONDUCT OF BUSINESS

Lawrence Paramasivam
Director – Supervision

What Are Some Of The Key Conduct Risks For 2015/16?

- Client Classification
- Suitability
- Financial Crime
- Marketing Material



Conduct Risks Agenda

Client Classification, Suitability and Retail FX

- Dean Miller

Financial Crime

- Michael Wong and Kevin Halpin

Funds and Asset Management

- Chris Cameron



CLIENT CLASSIFICATION, SUITABILITY & RETAIL FX

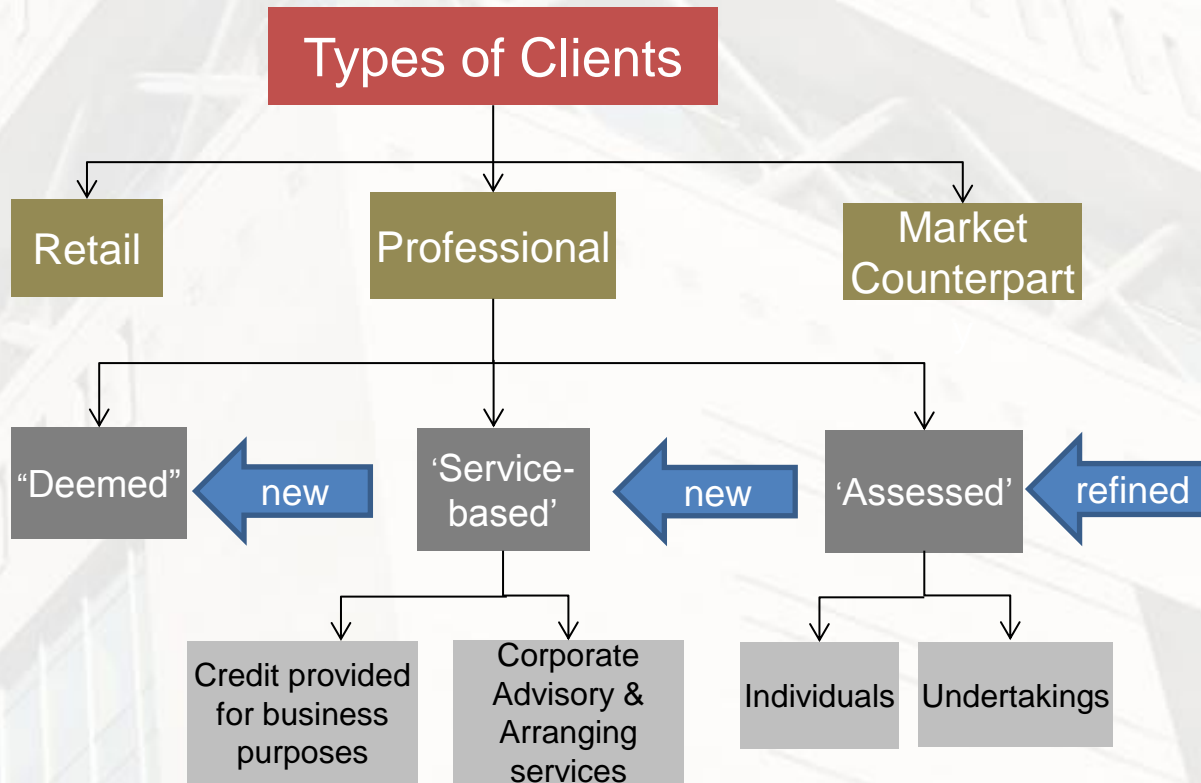
Dean Miller
Senior Manager – Supervision

Agenda

- Client Classification
 - New Rule COB 2 – Effective 1 April 2015
 - DFSA Q&A Published 26 April 2015
- Suitability
 - DFSA Business Plan and Dear SEO letter published on 20 April 2015
- Retail Foreign Exchange
 - Dear DFSA Stakeholder letter published 19 April 2015

Client Classification Regime

**new
COB 2**



New
Reliance on external client classifications

New
A Group-based 'bundle' of financial services

Assessed Professional Clients

- Requires objective + subjective determination
 - Net Asset Test
 - Knowledge and Experience
- Net Asset assessment must account for client's indebtedness
- Assessment of knowledge and experience must consider:
 - Knowledge and understanding of financial markets products or arrangements, and risks
 - Length of time participated in financial markets, frequency of dealings, extent of reliance on professional advice
 - Size and nature of transactions
 - Relevant qualifications
 - Composition and size of existing portfolio
 - Any other information considered relevant

Client Classification

- How should firms without a Retail Endorsement handle a request to Opt-in as a Retail Client?
- When does client information become stale?
- What types of records must be maintained?
- How do firms satisfy record-keeping requirements when records related to client classification are held by another entity?
- How do I determine whether an Undertaking qualifies as an Assessed Professional Client?

Client Classification Summary

New regime in force on 1 April 2015 (one exception)

Increased asset threshold of US\$1 million in force on 1 April 2016

Only existing clients are grandfathered for current services/activities

Suitability

- GEN 4.2.8 – Principle 8 of the Principles for Authorised Firms
 - An Authorised Firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for customers who are entitled to rely upon its judgment
- COB 3.4.2 – ‘Reasonable basis’
 - Ability to limit the extent of suitability assessment does not obviate the over-arching applicability of the principle
- Tie-in to Client Classification
 - Type of client (i.e., Retail, Deemed Professional, etc.) may inform suitability determination with respect to a particular transaction or product
 - Inherent product risks and complexities vs. client understanding
 - COB 3.4.3 – reasonable steps to ensure client information is accurate, complete, and up-to-date

Retail Foreign Exchange

- First Dear SEO Letter – March 2014
- DFSA is evaluating:
 - Observations regarding firms’ effectiveness in satisfying those policies and controlling related risks
 - Breadth of policy vis-à-vis other highly-leveraged products with similar risk attributes
- Recent “Dear Stakeholder” Letter – April 2015
- Tie-in to Client Classification and Key Considerations:
 - Thorough assessment of knowledge and experience and understanding of risks
 - Pay due regard to the interests of customers
 - Communicate information that is clear, fair, and not misleading

FINANCIAL CRIME RISKS

Michael Wong
Associate Director – Supervision
&
Kevin Halpin
Senior Manager – Supervision

Federal Law

AML Annual Return and Key Findings

Financial Crime Thematic Reviews
for 2015/16

Source of Wealth, Complex Legal
Structures and Ongoing CDD

Hold Mail Services



Federal Law 7 of 2014 on Combatting Terrorism Offences

- Enacted on 20 August 2014

Federal Law 9 of 2014 concerning Criminalization of Money Laundering and Terrorism Financing Crimes, amending Federal Law No 4 of 2002

- Enacted on 26 October 2014

What Is The Annual AML Return?

Annual AML Return

- Introduced in July 2013
- During 2014: 279 submissions received: 84% Firms and 16% DNFBPs
- 90% of submissions received on time or with an agreed extension
- 37% of submissions required minimum or no follow up from the DFSA

What Are The Key Findings And Observations?

Senior Management

- failure to properly identify senior management
- failure to obtain senior management acknowledgement and sign off

Business AML Risks

- need to tailor assessments specifically to the firm's business
- obtain buy-in from all areas of the firm

Customer AML Risks

- need to consider associated product or service risks, and not only country risks
- need to properly document customer risks with all known information

What Are The Key Findings And Observations?

Customer Due Diligence

- need to conduct ongoing CDD including transaction monitoring
- need to be aware of alerts raised on transactions booked overseas

Reliance and Outsourcing

- responses needed to differentiate between reliance and outsourcing from screening software

Suspicious Activity Reports

- 54 internal notifications and 50 external SARs
- the DFSA expected a higher number of internal notifications

What Are Some Other General Observations?

- **13%** Number of firms which had not appointed a Deputy MLRO
- **45%** Number of firms with Politically Exposed Persons as a Customer/Beneficial Owner
- **80%** Number of MLRO's which hold Other Positions
- **82%** Number of firms providing Annual AML Training
- **85%** Number of firms using Sanction Screening Software

What Are Some Of The Financial Crime Thematic Reviews For 2015/16?

Trade Finance

- information gathering
- systems and controls
- AML controls
- sanctions controls

Financial Crime

- Risk-based Approach
- On-going Customer Due Diligence
- Suspicious Activity Reports

Enhanced CDD – Source of Wealth

- Obtain and verify additional information on the customer and any beneficial owner.
- Verification of source of wealth (and source of funds) and obtaining independent corroborating evidence.
- Use of third party reports to obtain further information.
- Documenting decisions made and rationale as part of the verification process.

Complex Legal Structures

- What is the rationale and legitimate purpose for these complex legal structures?
- What are the procedures and controls in place for additional CDD for such complex structures?
- Do these procedures identify ultimate beneficial ownership and control of these structures?

On-going CDD

- Reviewing the adequacy of transaction monitoring threshold / parameters in place at the firm and or a third party to monitor transactions for the firm's customer types
- Transaction monitoring on a consolidated relationship basis for customer and beneficial owner e.g. where customer and or beneficial owner has more than one account with a firm?



Ongoing CDD – Reliance and Outsourcing

- If relying on Group transaction monitoring systems, have you assessed whether it complies with DFSA's regulatory requirements?
- Outsourcing
 - Ensure that the third party can be relied on to conduct transaction monitoring
 - Is a Service Level Agreement in place
 - Responsibility for any failure to meet obligations remains with the firm

Hold Mail Services

- Appropriate policies, procedures systems and controls in place governing the offering of Hold mail services
- All requests should be assessed and approved independently of the Relationship Manager
- Relationship Managers should not have control over retained mail during the period of retention of such mails nor have access to the mail retained
- Retained mail should not be left uncollected for extended periods of time



Hold my Mail

FUNDS AND ASSET MANAGEMENT

Chris Cameron
Associate Director – Supervision

Agenda

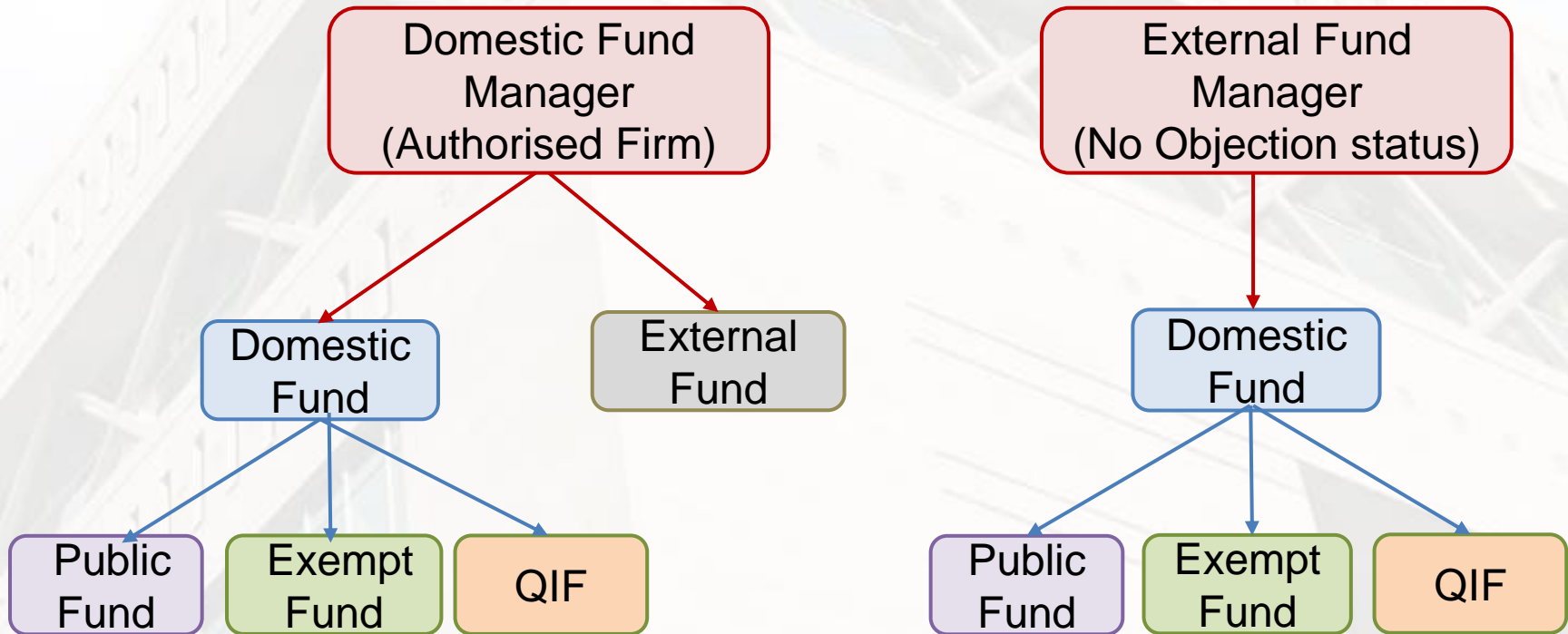
- Overview
- Qualified Investor Fund Regime
- AIFMD
- Waivers and Modifications
- Marketing Funds: DFSA Reporting



DIFC Fund Related Facts

| Type of Authorised Firm / Fund | Number |
|--------------------------------|--------|
| Asset Managers | 84 |
| Fund Managers | 15 |
| Custodians | 12 |
| Fund Administrators | 13 |
| DIFC Domiciled Funds | 10 |

DFSA Funds Regime



Qualified Investment Funds (QIFs) – Rationale And Context

| Type of Fund | Public Funds | Exempt Funds | QIFs |
|--------------------------|--|---|--|
| Level of regulation | Detailed regulation in line with IOSCO standards | Somewhat less stringent than for Public Funds | Significantly less stringent than for Exempt Funds |
| Investors and Offer | <ul style="list-style-type: none"> Includes Retail Clients; More than 100 Unitholders; and Offered to investors by way of public offer. | <ul style="list-style-type: none"> Only Professional Clients; 100 or fewer Unitholders; and Offered by way of a Private Placement. | <ul style="list-style-type: none"> Only Professional Clients; 50 or fewer Unitholders; and Offered by way of a Private Placement. |
| Minimum subscription | N/A | USD50,000 | USD500,000 |
| Application process time | N/A | 5 business days | 2 business days |

Alternative Investment Fund Managers Directive

- The European Union's AIFMD – which came in to force on 22 July 2013 - will affect a number of firms in the DIFC who manage and/or market investment funds that have a connection to the EU
- DFSA has worked to make sure that it can share regulatory information from the DIFC with EU regulators
- The DFSA has entered into a separate information sharing agreement on AIFMD with 28 regulators in the European Economic Area



Waivers And Modifications: 2014-15

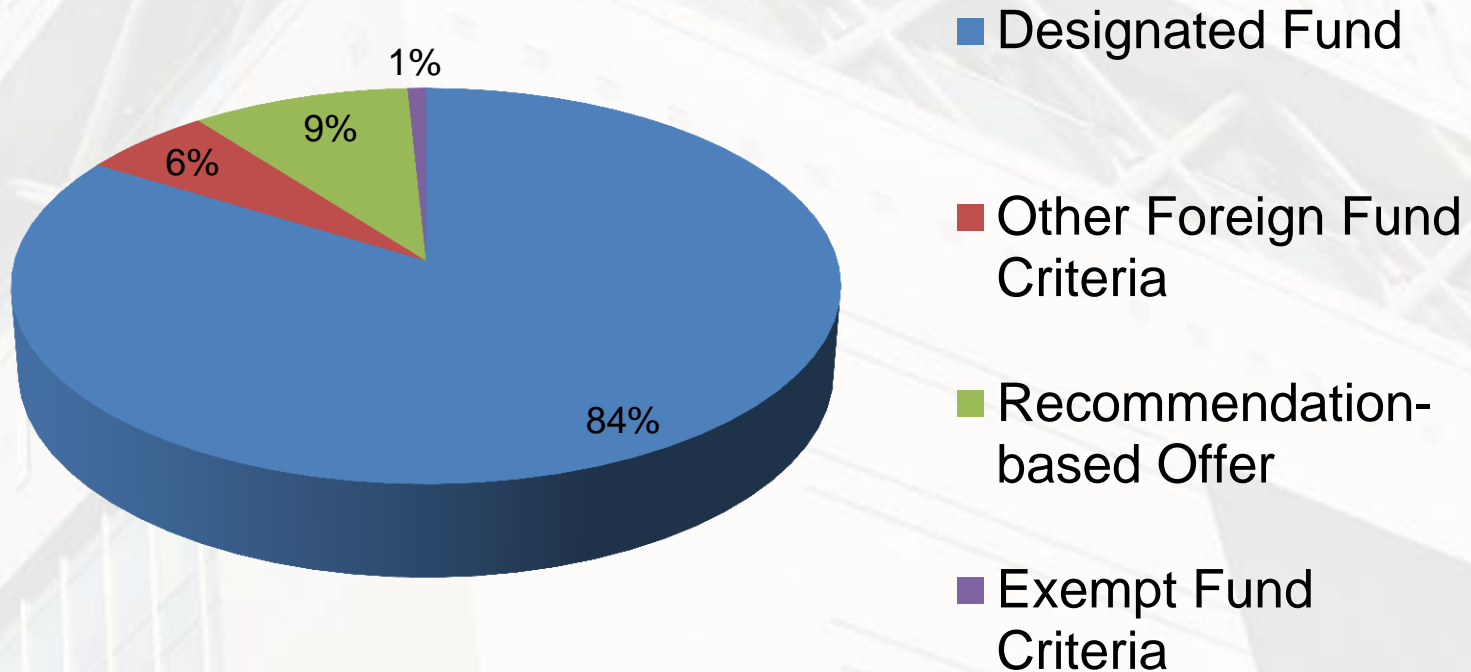
- Self custody of Real Property
- Borrowing
- Property Related Assets
- Affected Persons Transactions
- Valuations

Marketing Funds: DFSA Reporting

- What is the CIR Form?
- Move to EPRS Reporting
- Key findings and Observations

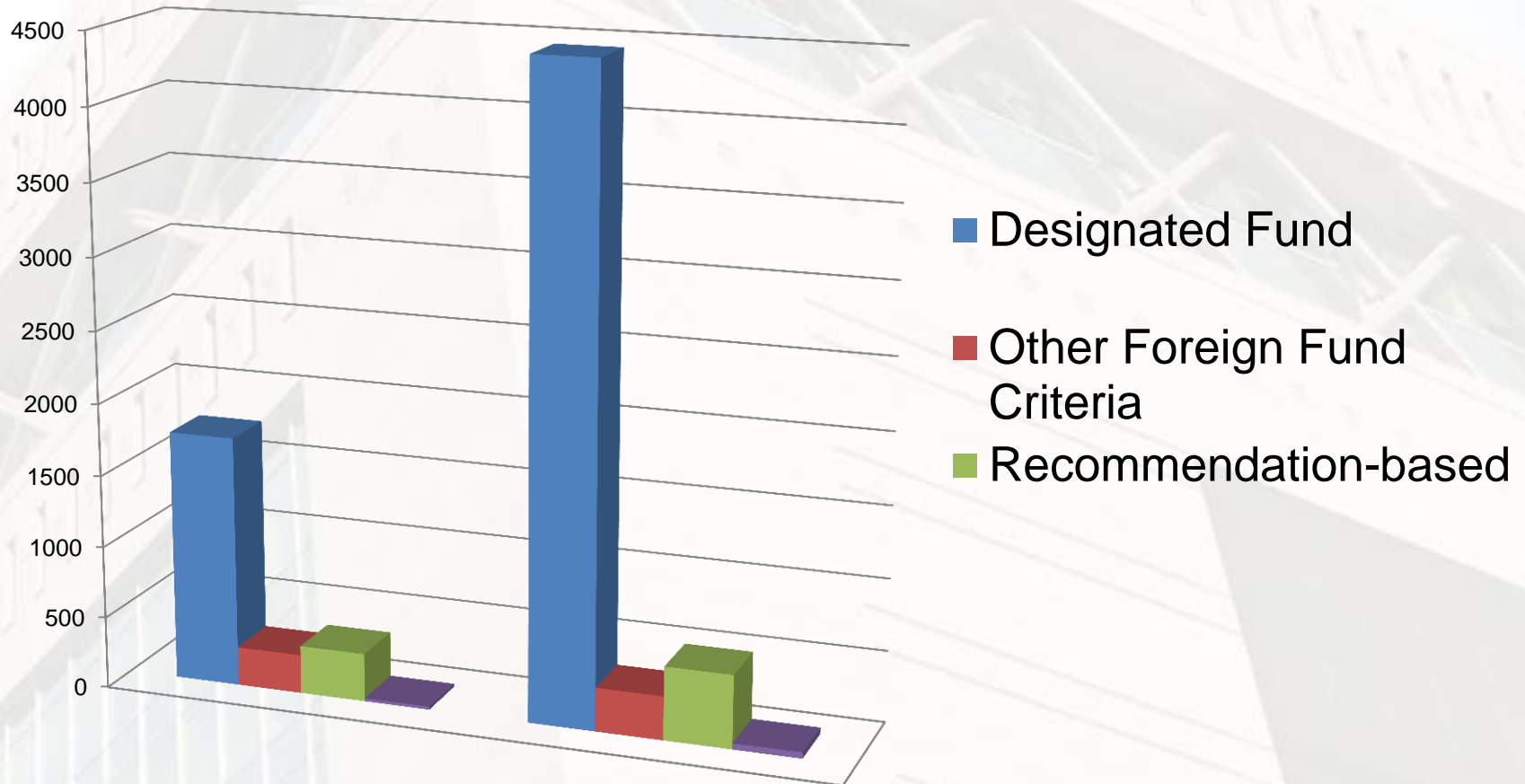
Collective Investment Rules (CIR) Form Submissions: 2014

Funds Marketed in 2014



Funds Marketed: 2013 vs 2014

Funds Marketed: 2013 vs. 2014



What Are The Key Findings And Observations?

Designated Funds

- Must be both domiciled in a Recognised Jurisdiction AND meet the criteria of a Designated Fund in that territory.
- Need to refer to the Recognised Jurisdiction Notice on the DFSA Website.

Other Foreign Fund Criteria

- Custodian
- Investment Manager
- Need to provides answers to both

Property Funds

- If the Fund is a Property Fund and meets the criteria of 'Designated Fund' or 'Other Foreign Fund' it must also comply with CIR 15.1.7.
- Need to answer the questions rather than leave them blank.

What Are The Key Findings And Observations?

Recommendation based

- Need to comply with COB 3.4.2 – Suitability assessment.
- Reminder of Principle 8 - Suitability

Exempt Fund

- Needs to meet the equivalent of the DFSA's Exempt Fund criteria.
- DFSA expected a higher number of these funds to be marketed.

Page on the DFSA website for Collective Investment Funds

- On the menu within 'Doing Business with DFSA' page and includes:
 - A Guide to Collective Investment Funds Regime leaflet*
 - Frequently Asked Questions leaflet
 - Managing a Fund
 - Fund Types
 - Marketing a Fund (including Alternative Investment Fund Managers Directive (AIFMD)).

<http://www.dfsa.ae/Pages/DoingBusinesswithDFSA/CollectiveInvestmentFunds/CollectiveInvestmentFunds.aspx>

** Available in hard or soft copy*



Thank You