

DFSA - Licensing and Recognition



Visit the DFSA website at www.dfsa.ae for:

- More news about the DFSA
- Full text of the Laws, Regulations and Rules
- Information on the authorisation process
- Copies of application forms

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Leaflet 2



Islamic Finance Regulation in the DFSA



The DFSA's Approach

The DFSA's regulatory framework is based on principles of transparency, integrity and efficiency. We have used these to create an enabling regulatory framework for the Islamic financial services industry. With the advantage of being able to design our regime from inception using international standards, we have been able to create a cohesive and balanced regulatory framework, rather than bolting Islamic finance onto an existing conventional regulatory regime.

Central to the DFSA's approach to Islamic finance is our belief in risk-based regulation. Many of the risks in Islamic finance have their counterparts in conventional finance, and we believe they should be treated similarly. So our regime for Islamic finance is integrated with that for conventional

finance, but with explicit recognition of the structures and risks of Islamic finance, where these are different.

We apply internationally accepted standards and principles, in Islamic finance those of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

The DFSA's Islamic Finance Regulatory Regime

The underpinning law is the Law Regulating Islamic Financial Business. Under this law, any firm that holds itself out as conducting Islamic financial business must have a special endorsement on its licence. This may allow the firm to operate as a wholly Islamic firm, or to operate an Islamic window.

SHARI'A GOVERNANCE

The DFSA is a 'Shari'a Systems Regulator' not a 'Shari'a Regulator'. Any firm which conducts Islamic financial business must put systems in place to ensure that the business is conducted in accordance with Shari'a. This includes the appointment of a Shari'a Supervisory Board (SSB) of at least three competent scholars. The firm must have systems in place to disseminate the SSB's rulings, conduct regular Shari'a reviews and also conduct an internal audit. (See the *Islamic Financial Business Module of the DFSA Rulebook – ISF*) These systems requirements provide the DFSA, and firms, with a clear and enforceable measure against which to assess the firm's performance.

PRUDENTIAL REGULATION

Firms who offer Profit Sharing Investment Accounts

(PSIAs) are subject to special prudential requirements, which reflect the possibility of Displaced Commercial Risk, i.e. the fact that the firm may find itself under commercial pressure to pay PSIA holders a rate of return higher than that which would normally be payable under the contract. The relevant rules are contained in the *DFSA Rulebook*. The Rulebook also deals with the capital treatment of various Islamic contracts. (See *Chapter 3 of the PIB Module of the DFSA Rulebook*)

There are specific provisions relating to Takaful companies in the PIN Module.

Islamic firms must in general follow the AAOIFI accounting standards.

DISCLOSURE

There are special disclosure requirements for Islamic firms. The firm must disclose details of its Shari'a

Supervisory Board, as well as disclosures about the special characteristics of the product offered.

ISLAMIC FUNDS

The DFSA's collective investment regime, contained in the Collective Investment Law, the Investment Trust Law and the Collective Investment Rules (CIR), contains special provisions for Islamic funds. These are

broadly similar to those for firms conducting Islamic financial business, including the appointment of a Shari'a Supervisory Board, and disclosures in the fund prospectus.

ISLAMIC SECURITIES

Islamic securities may be listed on an exchange in the DIFC, and there are disclosure requirements mainly related to Shari'a Board approval.

Islamic finance continues to evolve and drive the need for a practical response from regulators. The DFSA's regime bridges the gap between the conventional and the Islamic. It will continue to develop along with this vibrant market.

The Dubai Financial Services Authority is the sole independent 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 DFSA's regulatory mandate covers asset management, banking, securities, commodities futures trading, Islamic finance, an international financial exchange, and international commodities exchange.