

Representative Offices Outreach

01 May 2019

The goal of the Dubai Financial Services Authority (DFSA) in making this presentation is to provide you with easy to understand information about the DFSA. The DFSA does not make any warranty or assume any legal liability for the accuracy or completeness of the information as it may apply to particular circumstances. The information, which may be amended from time to time, does not constitute legal advice or official regulatory policy. It is provided for information purposes only and does not amount to individual or general guidance on DFSA policy or Rules and may not be relied upon in any way. Please visit www.dfsa.ae to find the official versions of DFSA administered Laws, Rules and Policy Statements.

Conduct Of Business Obligations

Saeeda Al Balooshi
Manager, Conduct of Business Team,
Supervision

Agenda

- Operating a Representative Office
 - How do Rep Office activities differ from Advising?
 - How do Rep Office activities differ from Arranging?
- Risk Assessment Findings
- DFSA Expectations

Operating Representative Office

- Permitted to carry on a “**very narrow**” set of activities.

1. Marketing Activities

- Marketing of financial services or financial products
- Making introductions or referrals

Head Office

**Branch of the
Head Office**

Group Member

outside the

DIFC

- Permitted to carry on a “**very narrow**” set of activities.

1. Marketing Activities

Events

Seminars

2. Additional Activities

- Point of contact and source of information
- Report to Head Office

Business Trends

Business
Opportunities

Developments in the
DIFC markets

Agenda

- Operating a Representative Office
- How do Rep Office activities differ from Advising?
- How do Rep Office activities differ from Arranging?
- Risk Assessment Findings
- DFSA Expectations

Rep Offices Activities vs. Advising

*How do Rep Office activities differ from **Advising**?*

Marketing

- General information to potential customers about financial services or financial products of related parties.

Advising

- Conducting the Financial Service of 'Advising on Financial Products'.



Prohibited

Rep Offices Activities vs. Advising

*How do Rep Office activities differ from **Advising**?*

Marketing

- Information given to a potential customer is limited to '**general information**' about financial products or financial services offered by a related party.

Advising

- Advice to an investor or potential investor on the **merits** of the Firm (as principal or agent), **buying, selling, holding, subscribing** for or **underwriting** a particular financial products.
- Licensed to give **advice** on financial products offered by any third party

“General Information”

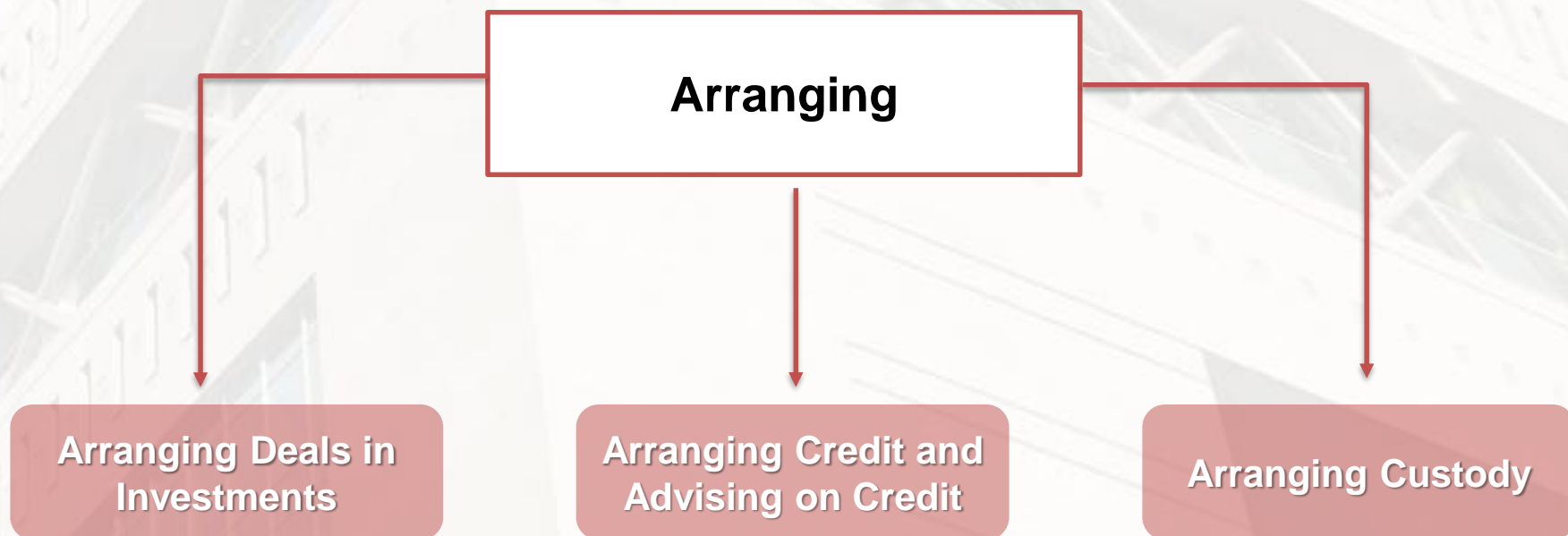


Agenda

- Operating a Representative Office
- How do Rep Office activities differ from Advising?
- How do Rep Office activities differ from Arranging?
- Risk Assessment Findings
- DFSA Expectations

Rep Offices Activities vs. Arranging

How do Rep Office activities differ from **Arranging**?



Rep Offices Activities vs. Arranging

*How do Rep Office activities differ from **Arranging**?*

- Activities that are **not** permitted for a Rep Office to undertake:

Negotiating and Settling terms
of contract

Collecting and Processing
fees

Receiving and
Transmitting client orders

Issuing Confirmations

Opening bank accounts on
behalf of customers

Receiving fees

Rep Offices Activities vs. Arranging

*How do Rep Office activities differ from **Arranging**?*

- Activities that are **not** permitted for a Rep Office to undertake:

Undertaking activities which can reasonably be regarded by potential customers as indicating (or implying) that they have a client relationship with the Rep Office.

Point of contact for
inquiries or complaints

Regular face-to-face
meetings

Explaining to potential
policyholder its 'duty of
disclosure' to the
insurer

Prohibited Activities

A Rep Office is **prohibited** from marketing the financial products and services of:

1. Related Parties located in the DIFC.

2. A third party unrelated to it.

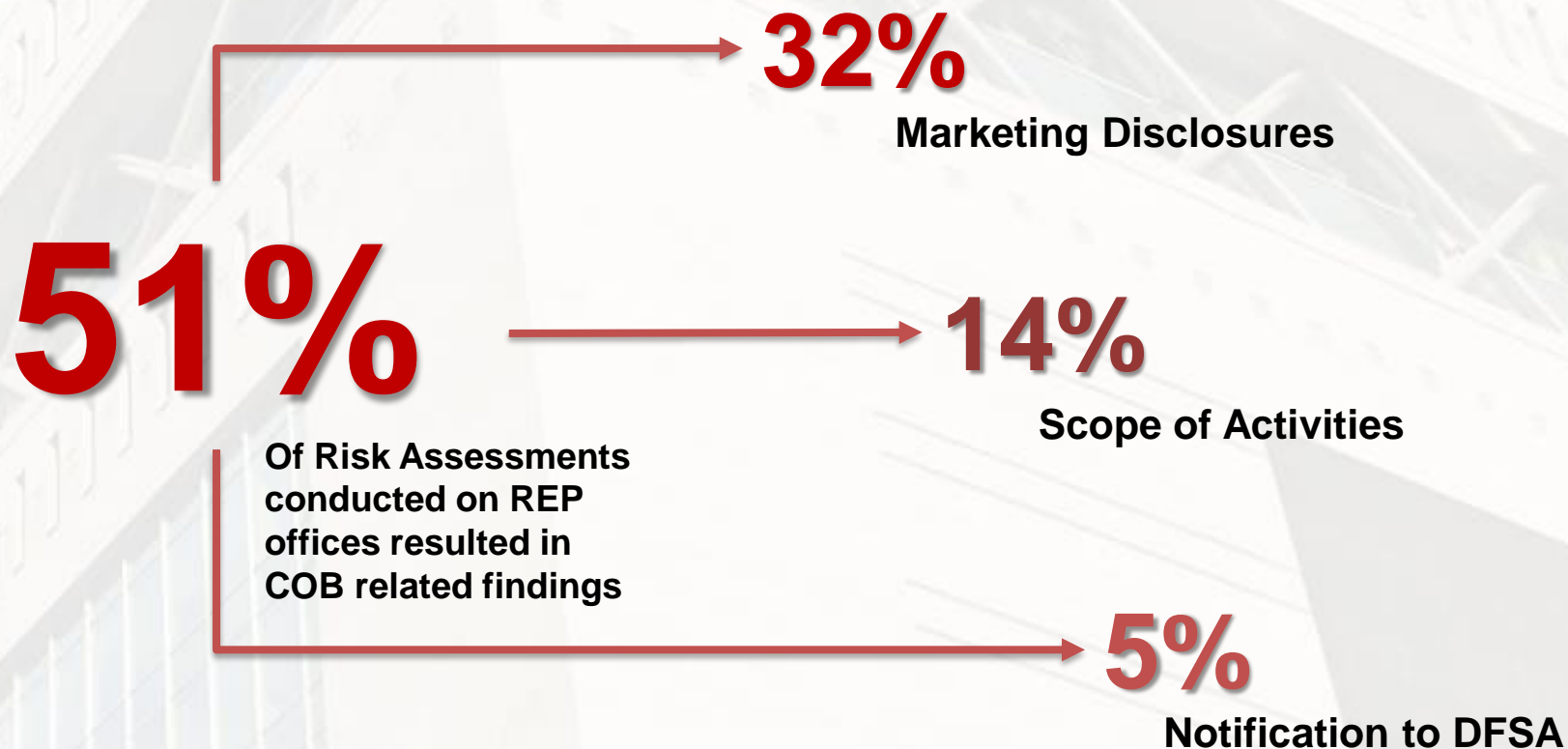
A Rep Office is **not permitted** to **undertake** or **approve** 'Financial Promotions' relating to financial products or financial services offered by unrelated party.

Agenda

- Operating a Representative Office
- How do Rep Office activities differ from Advising?
- How do Rep Office activities differ from Arranging?
- Risk Assessment Findings
- DFSA Expectations

Risk Assessments

- The DFSA conducted a Risk Assessment visit to 43 Rep Offices between 2011 – 2018.



Agenda

- Operating a Representative Office
- How do Rep Office activities differ from Advising?
- How do Rep Office activities differ from Arranging?
- Risk Assessment Findings
- **DFSA Expectations**

DFSA Expectations

1. Acting within the scope

- Continuous monitoring on the Rep Office's activities

2. Record Keeping

- Maintain all records for six years

3. General Notifications

- CIR Report
- Change of Group's governance structure
- Change of Controllers structure
- Change of premises
- Appointment/Withdrawal

Anti-Money Laundering, Countering Financing of Terrorism and Sanction Compliance Obligations

**Futoon Al Jassim
Manager, Financial Crime
Prevention Team, Supervision**

Agenda

- **AML for Representative Offices**
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

Operating Representative Office

Although Representative Offices are restricted from on-boarding customers, they still have AML/CTF and Sanction Compliance obligations.

The primary focus of the obligations is on reporting suspicious activities and in regard to observation of relevant UN sanctions.

Representative offices must comply with:

AML Rulebook

- Applying a Risk-Based Approach
- Business Risk Assessment
- AML Systems and Controls
- UNSCR and UAE Sanctions
- AML Training
- SARs
- General Obligations

Agenda

- AML for Representative Offices
- **AML/CTF Supervisory Approach**
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

The DFSA AML/CTF Supervisory Approach



Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- **Annual AML Return**
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

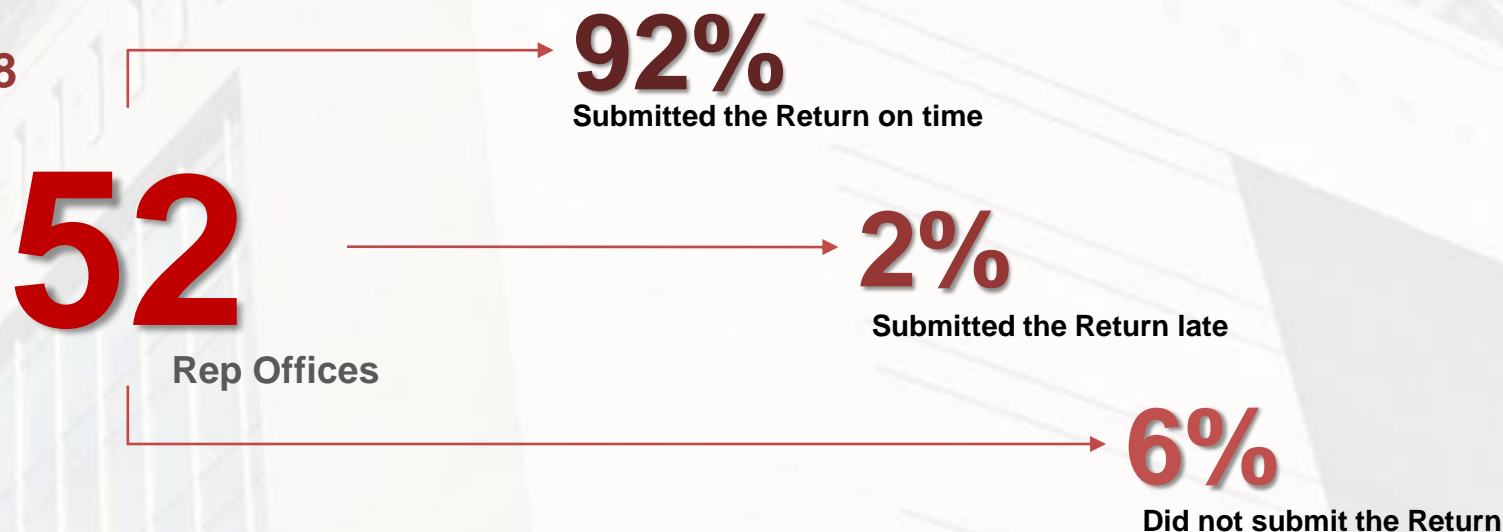
Obligation: Annual AML Return

Representative offices have the obligation to submit the Annual **AML Return** to the DFSA in a timely manner.

The annual AML Return covers the period from 1 August to 31 July. The deadline for submission is **30 September**.

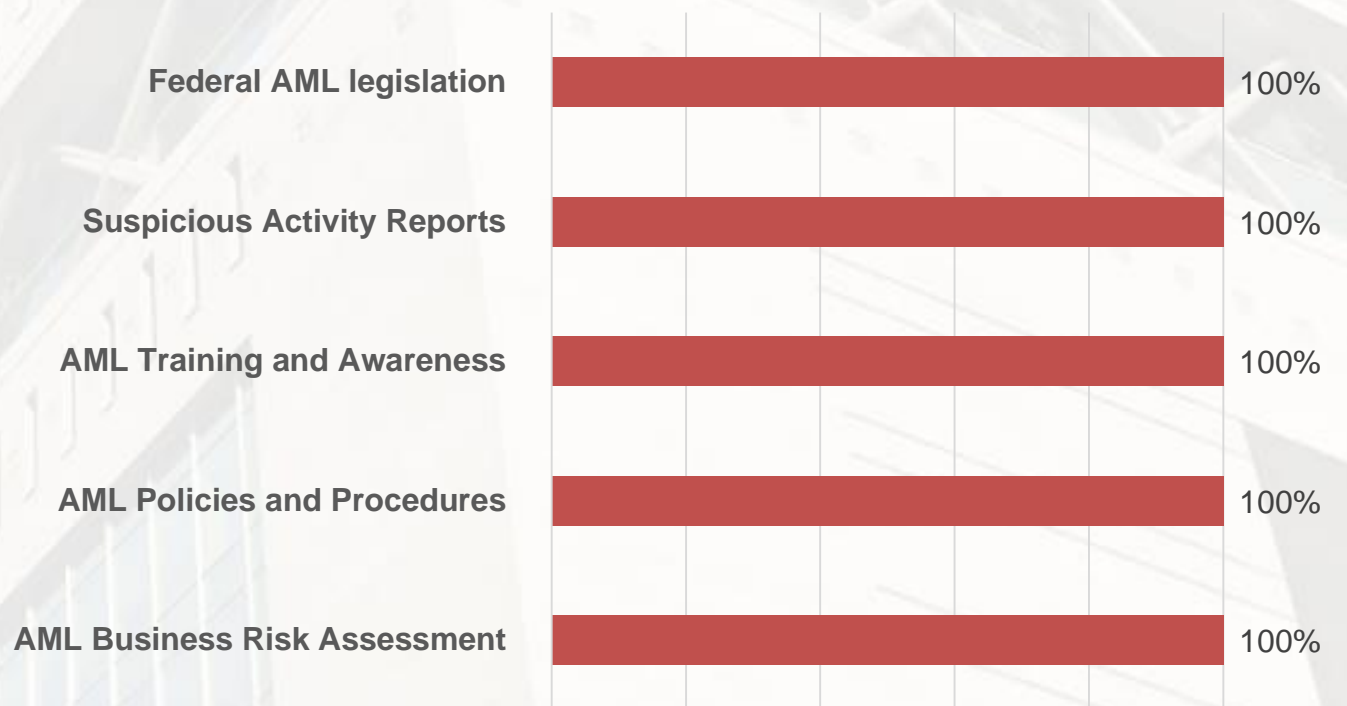
The Return is a mean of monitoring AML compliance obligations.

In 2018



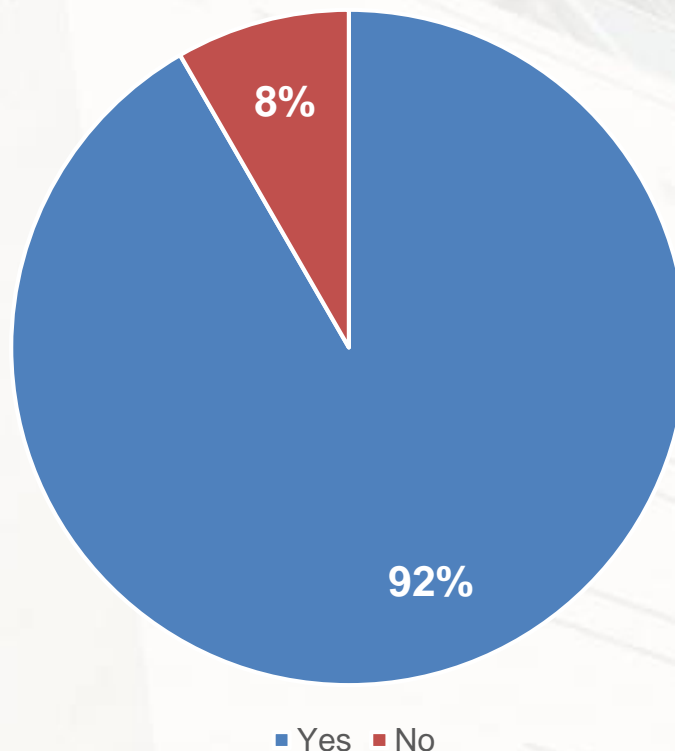
Findings from the 2018 AML Return

The Principal Representatives have certified the following:



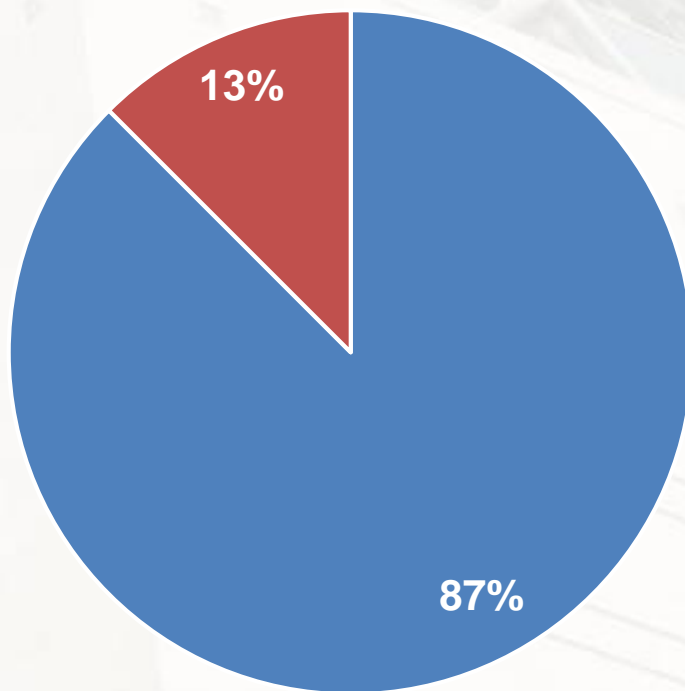
Business Risk Assessment

Q: Was the AML Business Risk Assessment approved by the Representative Office's senior management?



Business Risk Assessment

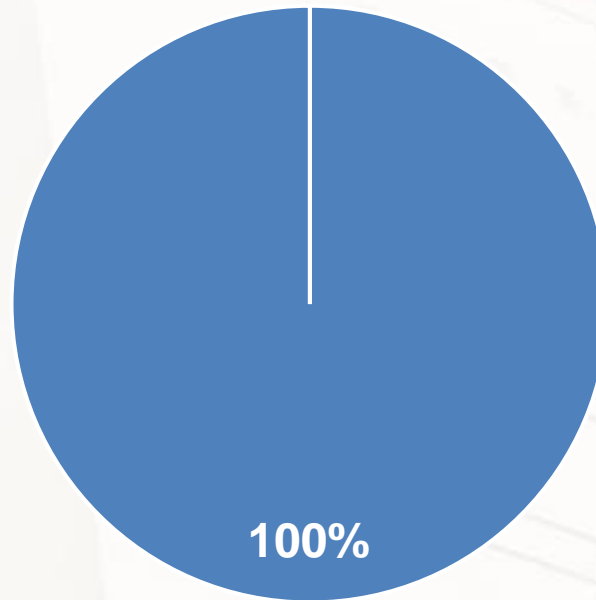
Q: Was the AML Business Risk Assessment reviewed during the relevant period?



■ Yes ■ No

Business Risk Assessment

Q: Does the Representative Office's AML Business Risk Assessment meet the requirements as set under AML Chapter 5?



■ Fully

Suspicious Activity Reports

0

SARS REPORTED TO THE FIU IN 2018

10

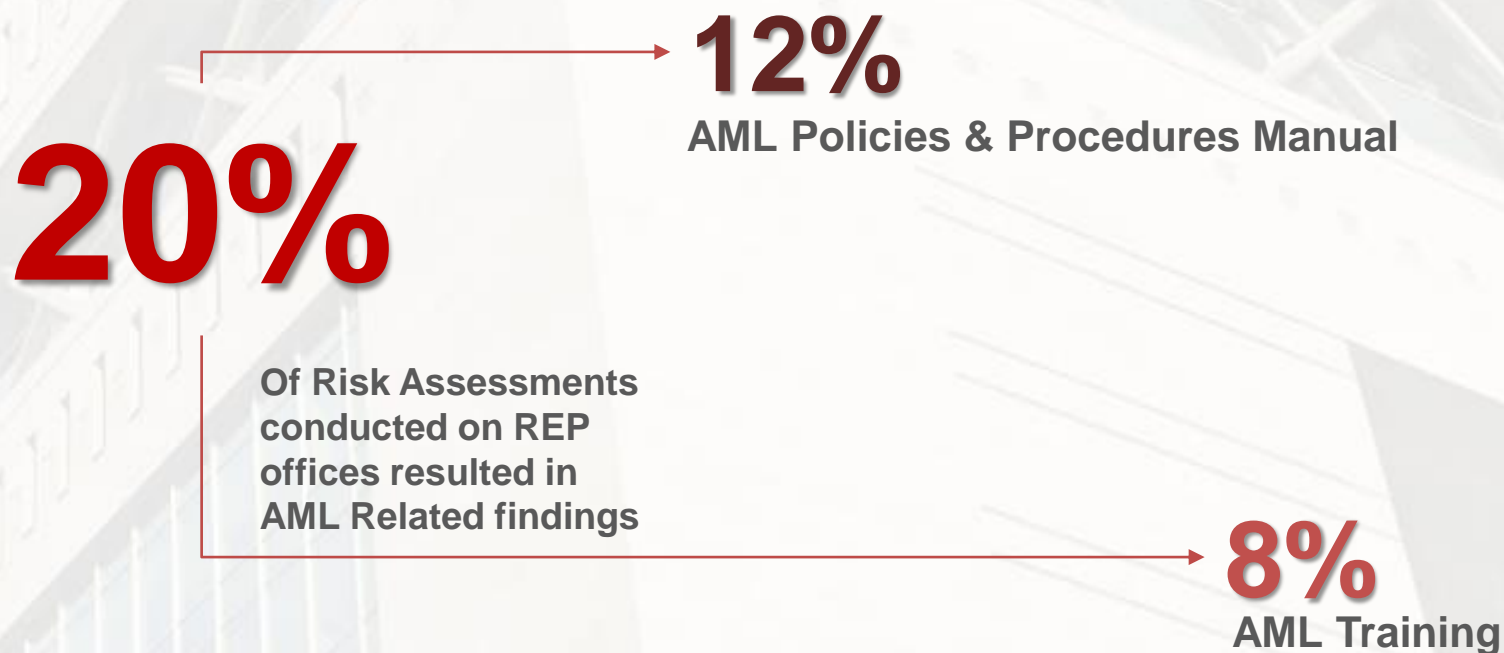
SARS REPORTED INTERNALLY IN 2018

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- **Risk Assessment Findings**
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

Risk Assessment Findings

According to the Risk Assessment visits, the DFSA noted that most of the AML breaches were in the following categories.



Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- **Business AML Risk Assessment**
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

Business AML Risk Assessment

- Representative Offices must take appropriate steps to **identify and assess money laundering risks** to which its business is exposed.
- The Representative office must take into account, to the extent relevant, any vulnerabilities relating to its **type of potential customers and their activities**, among other factors
- The information obtained in undertaking its business Risk Assessment must be used to:



Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- **AML/CTF and Sanction Compliance Policies & Procedures**
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

AML/CTF and Sanction Compliance Policies and Procedures

The firm must establish and maintain effective ***policies, procedures, systems and controls*** to prevent opportunities for money laundering in relation to the Relevant Person and its activities.

The policies would reflect the firm ***nature and size***. This will include:

Business Risk
Assessment

SARs

AML Training

General Obligations

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- **AML/CTF and Sanction Compliance training**
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- DFSA Expectations

Training obligation

Firms must provide AML training to ***all relevant Employees*** at appropriate and regular intervals.

The firm must ensure that its AML training enables its Employees to understand:

Relevant legislation

Policies, procedures,
systems and controls

Types of activity that
may constitute
suspicious activity

Notification to the
Principal
Representative

Prevailing
techniques, methods
and trends

Roles and
responsibilities in
combating ML

Relevant findings

Training obligation

The firm must ensure that its AML training:

**Is appropriately tailored
to the Rep office
activities**

**Indicates the different
levels of ML risk and
vulnerabilities
associated with it.**

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- **Suspicious Activity Reports**
- Sanctions
- Record Keeping
- DFSA Expectations

SAR Obligations

A Representative Office must have appropriate arrangements to ensure that whenever any Employee, acting in the ordinary course of his employment, either:

knows or suspects

**has reasonable grounds
for knowing or suspecting;**

If a Principal Representative is notified or becomes aware of a suspicious activity, he must without delay:

Investigate

**Determine whether
if a SAR must be
made to the FIU**

File SAR to the FIU

Notify the DFSA

SAR Obligations

“The requirement for Employees to make a suspicious activity notification include situations when **no business relationship was developed because the circumstances were suspicious.”**

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- **Sanctions**
- Record Keeping
- DFSA Expectations

Sanctions obligations

Establish and maintain effective systems and controls **to comply with relevant resolutions or sanctions** issued by the United Nations Security Council.

Establish and maintain systems and controls to **comply with, any findings, recommendations, guidance, directives, resolutions, sanctions, notices or other conclusions** issued by:

- (a) the government of the UAE or any government departments in the UAE;
- (b) the Central Bank of the UAE or the FID;
- (c) FATF;
- (d) UAE enforcement agencies; and
- (e) the DFSA

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- **Record Keeping**
- DFSA Expectations

Record Keeping

Firms must maintain all their records for **six years**. This includes but is not limited to:

- Potential customers details
- Notifications
- SARs
- Any relevant communications with the FIU
- Business Risk Assessments
- Training Records

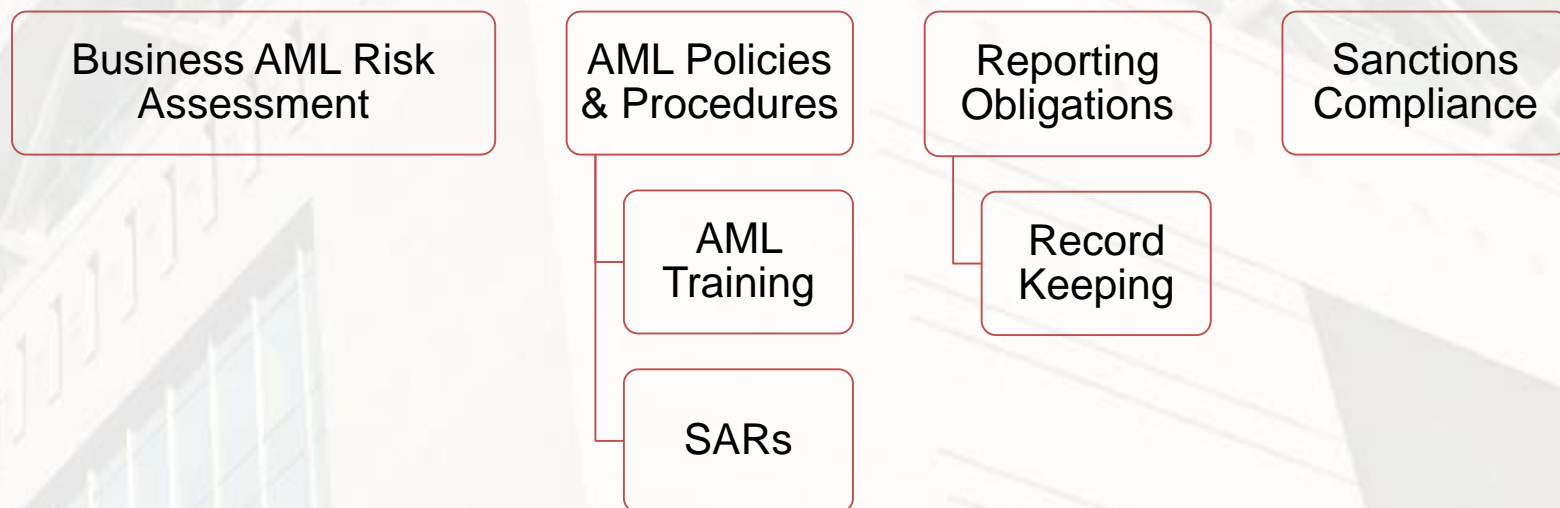
Firms must ensure that these records are **accessible** to the Relevant Persons, the DFSA or a Law Enforcement Agency.

Agenda

- AML for Representative Offices
- AML/CTF Supervisory Approach
- Annual AML Return
- Risk Assessment Findings
- Business AML Risk Assessment
- AML/CTF and Sanction Compliance Policies & Procedures
- AML/CTF and Sanction Compliance training
- Suspicious Activity Reports
- Sanctions
- Record Keeping
- **DFSA Expectations**

DFSA Expectations

The DFSA expects Representative Offices to take reasonable steps to identify and assess the money laundering risks its business is exposed to. This includes:



SCENARIOS

COB Scenario 1

- *Mr. Tobi Albert is the Principal Representative of XYZ Representative Office in the DIFC. Mr. Albert attends repeated meetings with the Sales person of XYZ and a repeated group client.*
- **Is Mr. Albert allowed to attend these meetings?**

Solution:

No. Having regular face-to-face meetings with the customers referred to a Rep Office related parties to discuss those customers' needs and objectives, in circumstance that would lead the potential customer to believe that the Rep Office is providing the financial service or product.

COB Scenario 2

- *Mrs. Tania Wall, a potential client of XYZ, sent her passport copy, source of wealth, utility bills (and other KYC related information) to Mr. Albert (XYZ's Principal Representative)*
- **Is this considered to be an 'Arranging' activity?**

Solution:

No. While the DFSA will take into account the overall circumstances in determining whether a Rep Office has acted outside the scope of its Licence, generally a Rep Office will not be regarded as carrying on 'arranging activities' in this scenario.

COB Scenario 2

- *Mrs. Tania Wall, a potential client of XYZ, sent her passport copy, source of wealth, utility bills (and other KYC related information) to Mr. Albert (XYZ's Principal Representative)*
- **Is Mr. Albert allowed to collect Mrs. Walls documents?**

Solution:

Yes. Generally, a Rep Office will not be regarded as carrying on 'Arranging Activities' if it merely acts as a mail box for collecting and sending customer information (including KYC related information) provided by the potential customers to the financial product/service provider.

COB Scenario 3

- *Mr. Albert, received a commission of USD 5,000 from XYZ-DIFC Firm for the referral of potential client. XYZ-DIFC, which is a Group member of XYZ established in the DIFC.*
- Can Mr. Albert accept the USD 5,000 commission from XYZ-DIFC?
- Should the commission be higher?

Solution:

No. A Rep Office is prohibited from marketing financial services/products offered by a related entity if that party is in the DIFC.

SAR Scenario 1

A rep office of an insurance company meets with a client who asks about an insurance policy with focusing on the following:

- **What are the penalties for withdrawing from the policy?**
- **What is the usual procedure of cancelling the policy and how is the amount repaid?**
- **Can a third party or a relative purchase the policy for me?**
- **What is the free look period and how is the amount repaid if cancelled within the free look period?**

Will you consider it a SAR?

SAR Scenario 2

An AML compliance officer is looking to establish a suspicious activity reporting process to incorporate in the AML Manual. Which of the following should be incorporated into the procedures?

- A. Allow employees to refer suspicious activity directly to the government authorities to file as quickly as possible.**
- B. Have employees refer all unusual activity to the internal independent audit department to assess whether the activity should be reported.**
- C. Have employees refer all unusual activity to senior management to ensure they are aware of all unusual activity within the organisation.**
- D. Have employees refer all unusual activity to her so that she may conduct an investigation into what needs to be reported to authorities.**

SAR Scenario 3

- *Mr. X, who is a government official approaches you (Principal Rep) to provide the documents required to be sent to the Head Office. Mr. X asks you to deliver this message:*

“ I am very well known person with a government position and I do not think you need any information regarding my SOW. Actually, if you do not accept my application without these documents, I will go to Firm Z”.

Will you consider it a SAR?



Thank You