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To the Senior Executive Officers
of DFSA Authorized Firms

12th May 2008

Dear SEO,

Re: Capital Adequacy Planning and Monitoring Processes Theme Review

Maintaining adequate capital on a continuing basis is a fundamental regulatory requirement and a sound business practice for Authorised Firms ("AFs"). Adequate capital is essential to fostering and maintaining client, creditor and investor confidence. Firms should maintain sufficient capital to absorb unexpected losses and allow flexibility to take advantage of growth and business expansion opportunities.

DFSA requires all AFs to meet minimum regulatory capital requirements and have systems, controls and forecasting measures that ensure minimum capital requirements are met on a continuous basis.

During the first quarter, we conducted a thematic review on the capital adequacy planning and monitoring processes of AFs. A cross-section of AFs were reviewed, including both ones subject to risk-based capital requirements and expenditure-based capital requirements. The review disclosed that all AFs were aware of their obligations and monitored their capital position on a periodic basis. The review indicated that in most cases firms' systems and controls were adequate for the business model, size and complexity of the AFs. Most AFs reviewed forecasted their capital requirement six to twelve months out, and this was incorporated in their financial budget and forecasts.

DFSA does not prescribe a specific capital planning and monitoring process. However, we believe that more frequent, possibly continuous, capital monitoring is necessary for firms with higher complexity, potentially significant balance sheet changes and larger variance in revenue and expenses. We noted in this review that many firms maintain a buffer of capital to cover unforeseen events and contingencies.

Over the past several years, a few firms subject to expenditure-based capital requirements have breached those rules. Those firms generally were in start-up mode, not engaging in significant business, and their owners, who had significant financial resources, acted quickly to remedy the breaches. Nevertheless, we expect capital breaches to be extremely rare events. They are generally indicative of managerial shortcomings and may necessitate more intensive DFSA oversight under our risk-based supervisory approach. Adequate capital planning and monitoring processes will help prevent such unacceptable occurrences and be a critical part of strategies to maximize firm performance.

Yours sincerely,

Michael J. Zamorski

Michael Zamorski
Managing Director, Supervision