

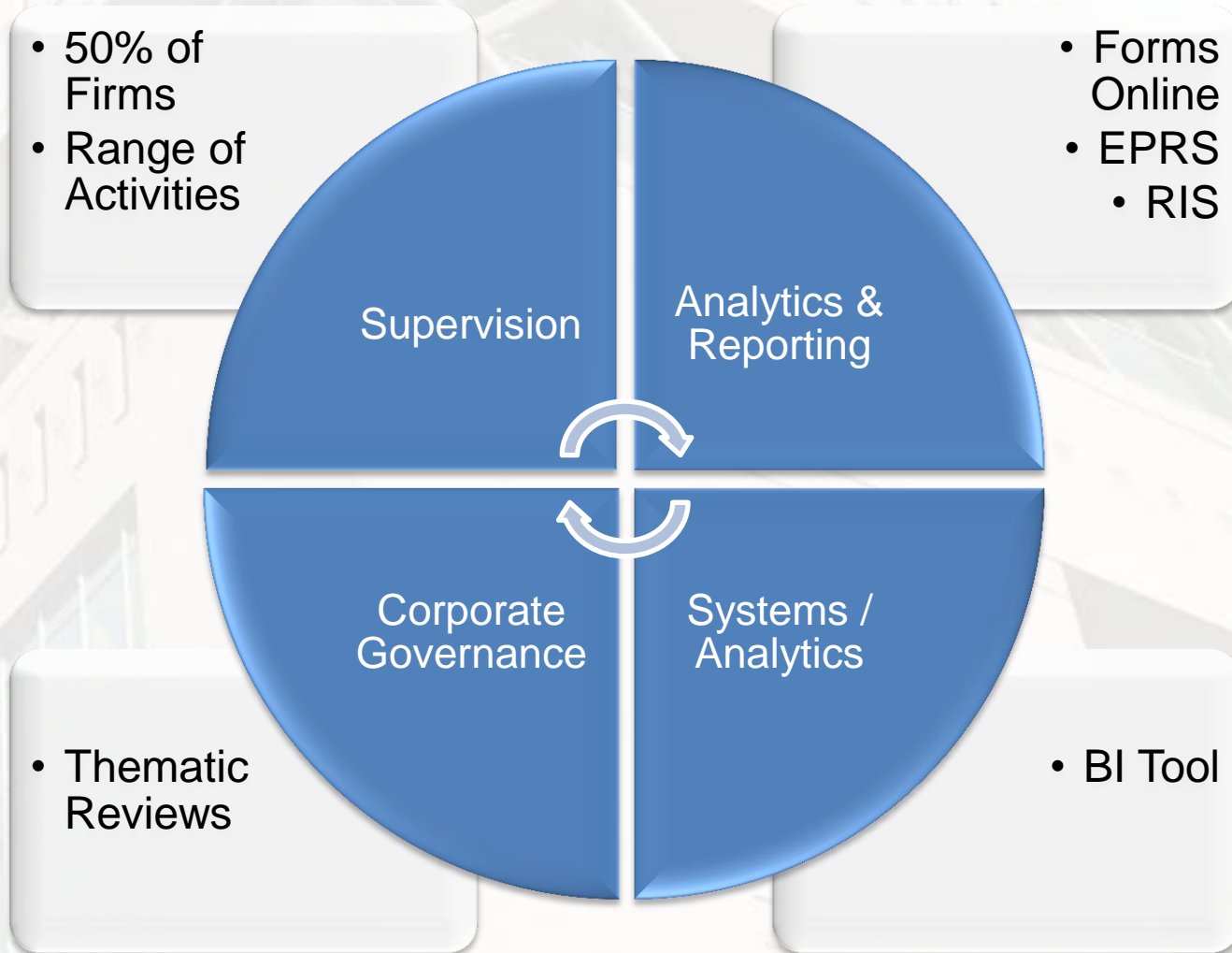
THEMATIC SUPERVISION EMERGING TRENDS CONG/DFSA OUTREACH 30 May 2016

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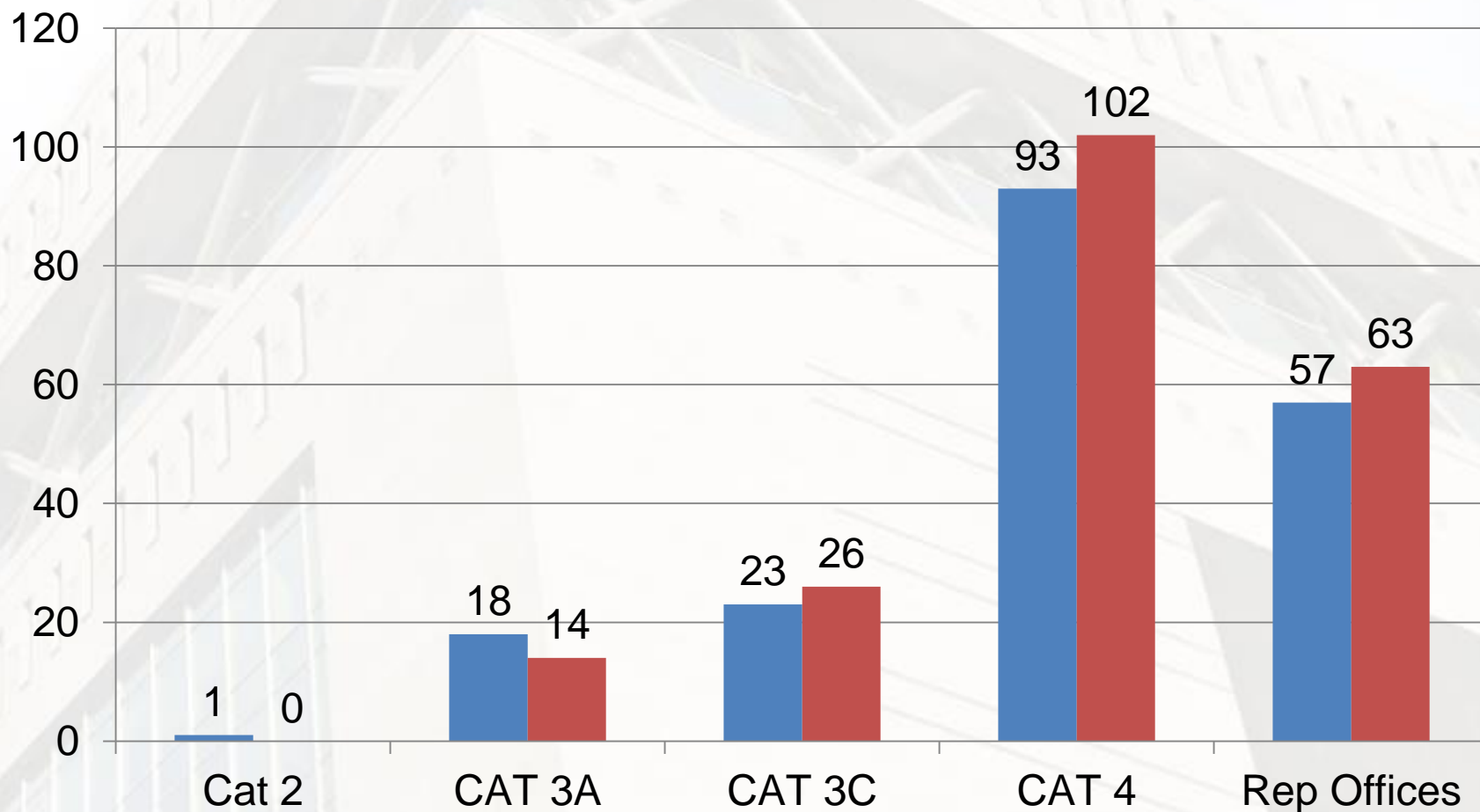
Agenda

- Team structure, our general approach and emerging issues
Serdar Güner, Director
- Supervision
Rose Plunkett, Associate Director
Nada Al Zarooni, Manager
- Systems/Analytics
Jeremy Cox, Senior Manager

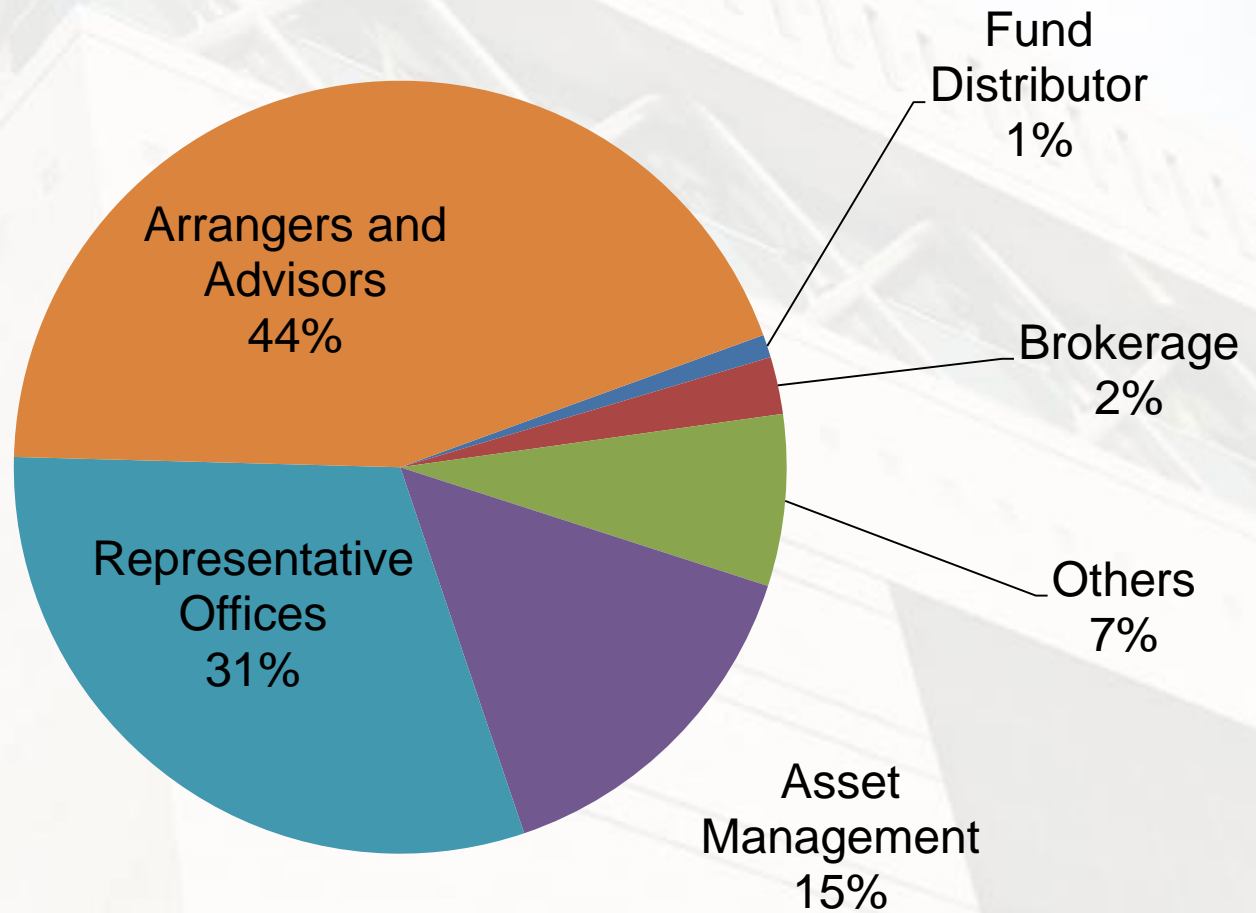
Functional Lines



Thematic Supervision Team (TST) – Breakdown of Firms 2015 - Now



TST Firms



CORPORATE GOVERNANCE

Since the last DFSA Outreach session:

- Basel Committee on Banking Supervision published in July 2015 the updated Corporate Governance Principles for Banks;
- IAIS issued in November 2015 the Insurance Core Principles; and
- OECD issued in September 2015 the G20/OECD Principles of Corporate Governance

Top Risks in Corporate Governance

In DIFC and in the industry in general

- Accountability
- Conflicts of interest
- Lack of disclosure
- Lack of internal controls
- Perimeter issues
- Lack of tone from the top/culture
- Lack of effective challenge
- Group dynamics – operations and reporting (branches)
- Weaknesses in remuneration structures

SUPERVISION

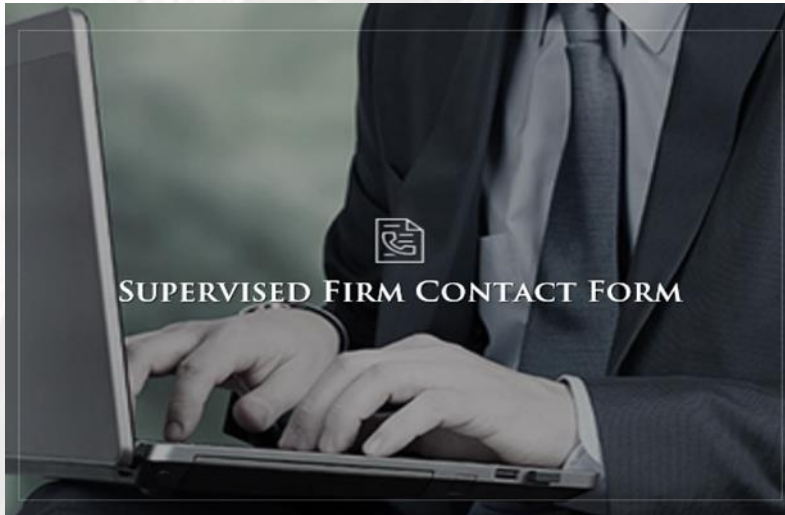
**Rose Plunkett,
Associate Director - Supervision
Nada Al Zarooni,
Manager – Supervision**

- How do we supervise TST Firms?
- Being supervised portal: Your queries and general activities
- Common trends and new developments
- Representative Offices update
- Our supervisory focus for 2016

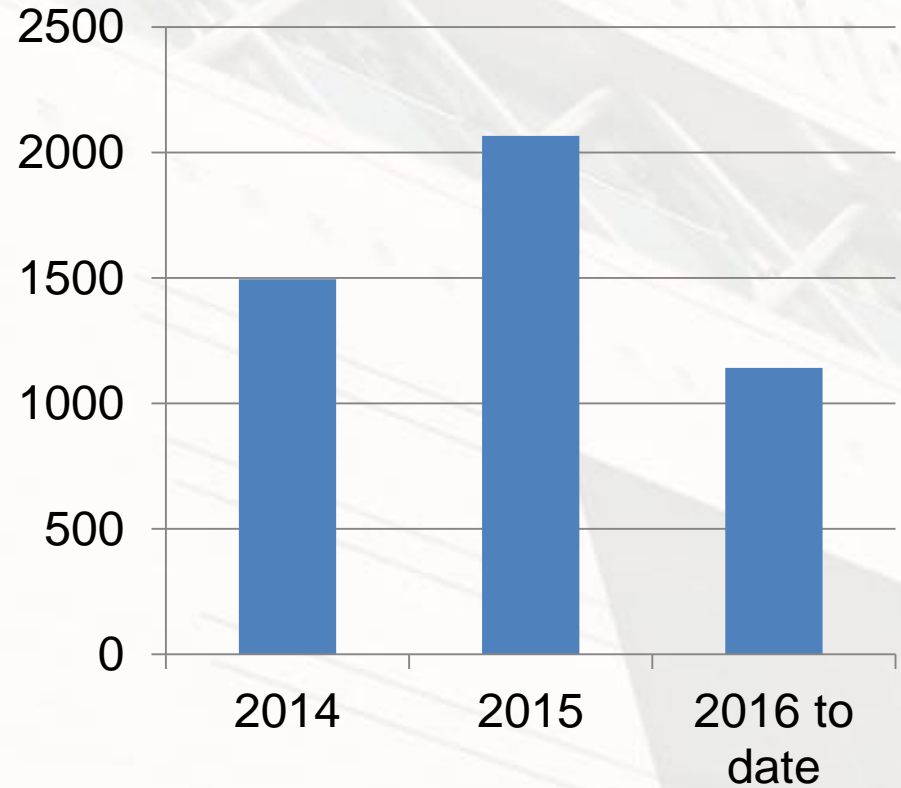
Thematic Supervision Approach

- Proportionate, risk - based approach
- Increasingly focusing on impact
- Use same supervisory tools as other Supervision Division teams
- Additional bespoke tools

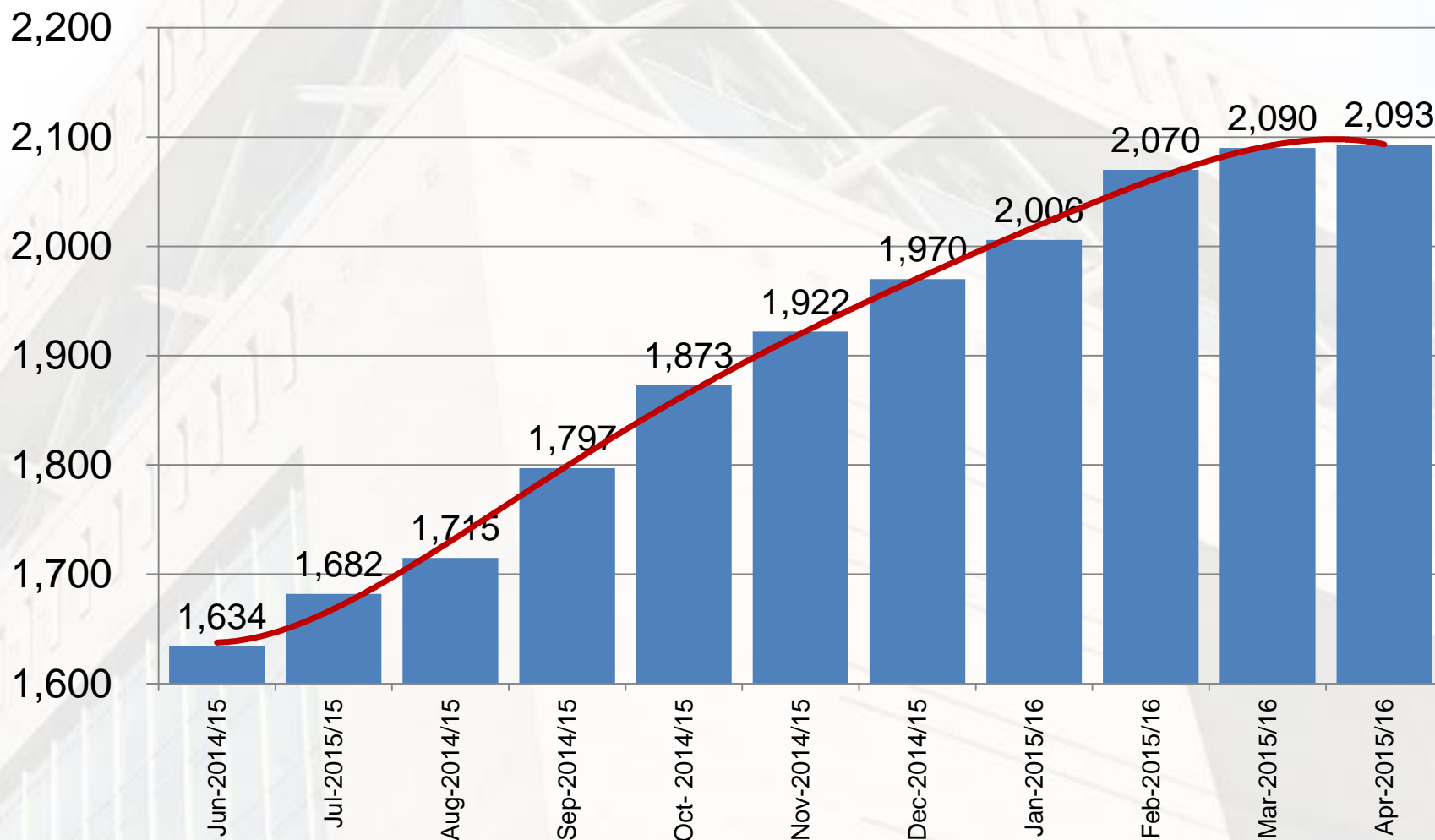
Being Supervised Portal



**Number of TST
Firm Submissions**



Supervision – Activities (Monthly Rolling)

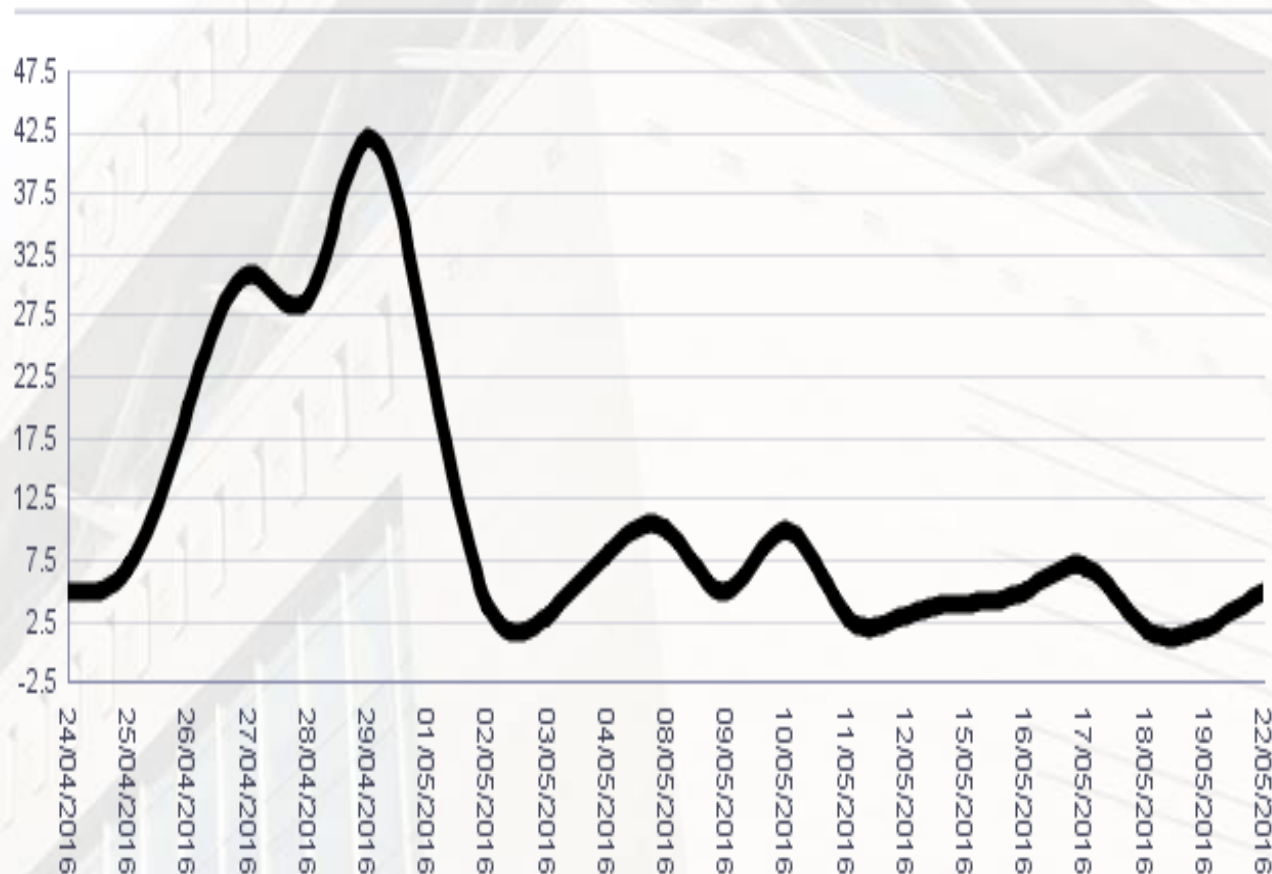


Activities' Breakdown - by Type

Activity Type	2014	2015	2016
Reporting Requirements	381	480	327
AML Query/Annual Return	124	168	145
EPRS Query	25	247	115
Authorised Individuals	182	243	112
Ad-hoc Enquiries	80	176	95
Risk Assessment	36	58	65
Meeting with Firm	63	97	46
Notifications	81	78	43
PIB Annual Returns	28	35	27
PIB Quarterly Returns	19	50	25
Firm Handover	22	67	21
Firm Withdrawal	23	30	20
Change in Firm Details	45	69	18
Change of Control	32	35	18
Client File Review	7	32	16
Breaches	29	15	11
Waivers	18	18	10
Fee Query	13	24	7
Change of Scope/License	23	25	5
Desk-based Reviews	0	0	4
Other Categories (24)	264	119	11

Supervision – Daily Submissions

Past 30 Days



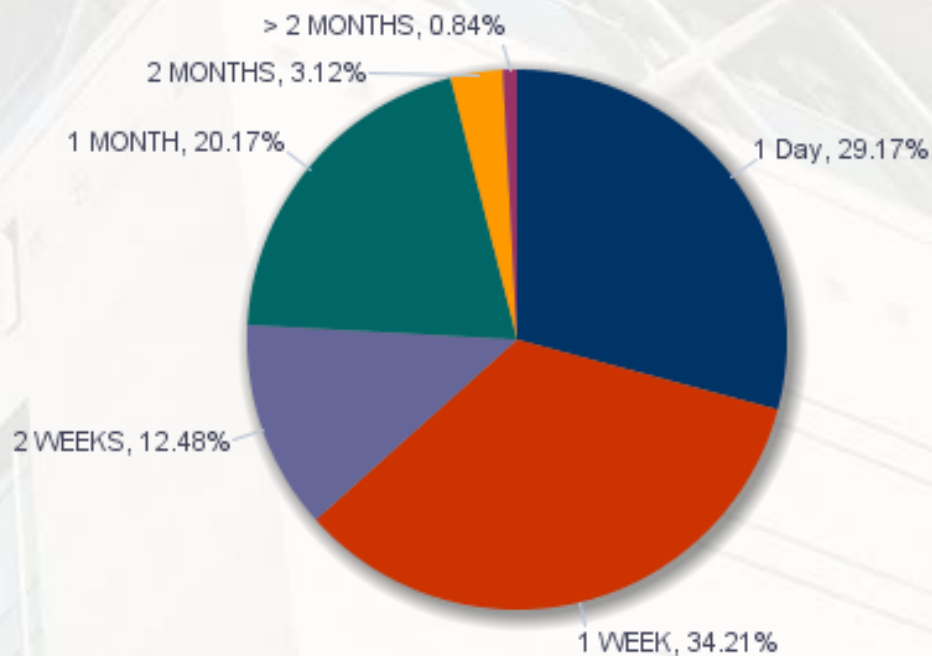
THIS MONTH

143

ActivitySubTypeName	#	%
AML Query/Annual Return	22	15.4%
Ad-hoc Enquiries	8	5.6%
Authorised Individuals	14	9.8%
Breaches	3	2.1%
Change in Firm Details	2	1.4%
Change of Control	3	2.1%
Client File Review	6	4.2%
EPRS Query	1	0.7%
Firm Handover	1	0.7%
Firm Withdrawal	3	2.1%
Meeting with Firm	3	2.1%
Notifications	10	7.0%
PIB Annual Returns	7	4.9%
PIB Quarterly Returns	10	7.0%
Reporting Requirements	46	32.2%
Risk Assessment	3	2.1%
Waivers	1	0.7%
Grand Total	143	100.0%

Supervision – Activities, 2016

Completion Times



Common Trends and Improvement Opportunities

- Outsourcing of mandated positions
 - Competency and capacity of Authorised Individuals
 - Turnover of Authorised Individuals
 - Further outsourcing of outsourced functions

<u>Outsourced Functions</u>	<u>Number of Functions</u>		<u>Number of Firms</u>	
TST	104	55%	91	56%
Prudential Risk	45	24%	37	23%
Conduct Risk	<u>40</u>	<u>21%</u>	<u>34</u>	<u>21%</u>
Total	189	100%	162	100%

Common Trends contd.

- Inadequate documentation on client files to evidence compliance with KYC and client classification requirements
- Reliance on other group entities or third parties to conduct certain activities and failure to demonstrate adequate oversight by TST Firm
- Failure to read technical and/or instructional guidelines relating to PIB/EPRS
- Monitoring of compliance with capital adequacy requirements by the Finance Officer

Common Trends contd.

- Compliance and AML Manuals – generic templates not specific to business model and risks of Firm
- Quality of Authorised Individual Applications
 - Missing Data in application forms
 - Missing Supporting Documentation
- Notifications and adherence to DFSA Temporary Cover Rules
- Public Register updates

Representative Offices

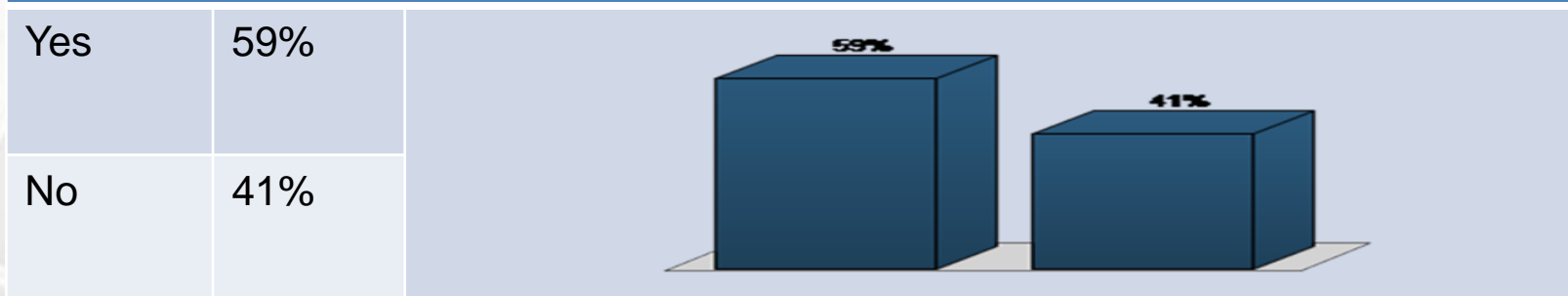
Representative Offices account for 15% of Authorised Firms in Centre and 31% of TST Firms

- Thematic Supervision areas of concern:
 - Marketing material regulatory disclosures
 - Acting within scope of Licence
 - Understanding DFSA obligations as a Principal Representative

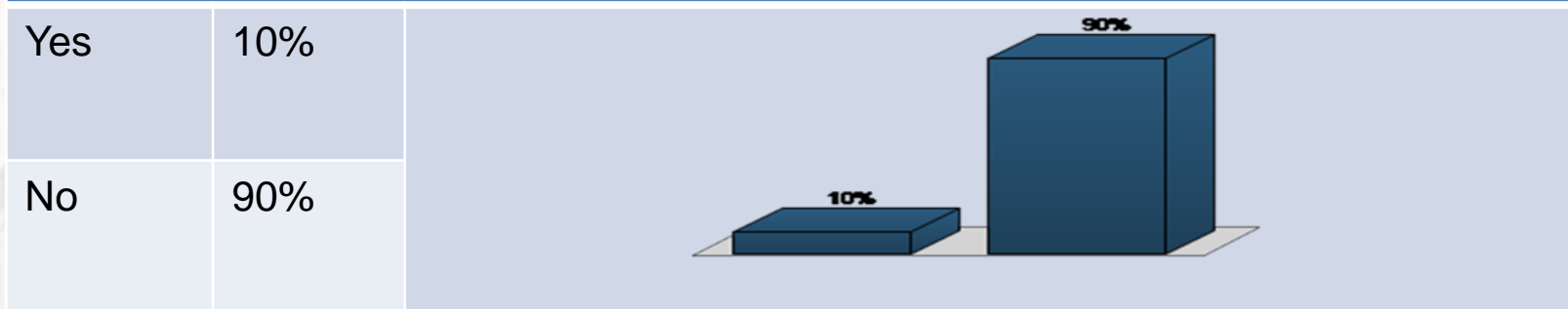
Representative Offices contd.

- Principal Representatives responses to DFSA questions of 2015:

Can a Representative Office maintain an on-going relationship with Group Clients?



Can a Representative Office assist another person in filling in applications for financial products or services?

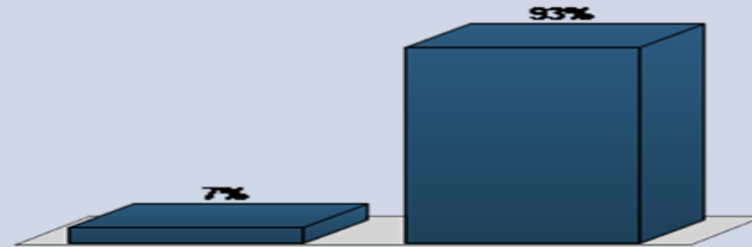


Representative Offices contd.

Can a Representative Office represent anyone other than itself or a member of its Group?

Yes 7%

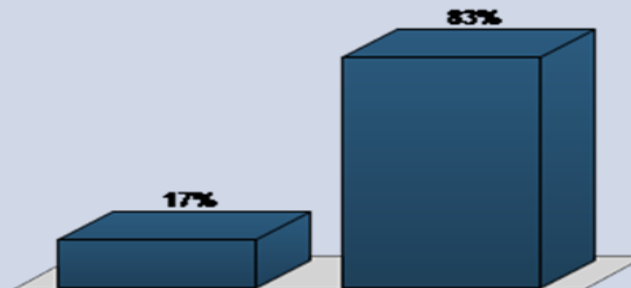
No 93%



Can a Representative Office receive and transmit orders?

Yes 17%

No 83%

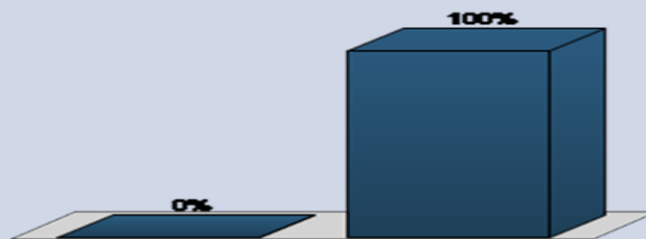


Representative Offices contd.

Can a Representative Office provide opinions, recommendations or specific investment advice?

Yes 0%

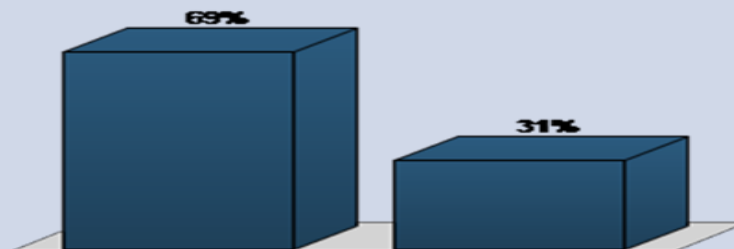
No 100%



Can a Representative Office distribute investment research?

Yes 69%

No 31%



Our Focus Going Forward

- Further refinement of our regulatory framework - sector focus
- Arranging and Representative Offices consultation
- Client classification thematic review
- AML/Financial crime

SYSTEMS: FACTS AND FIGURES

**Jeremy Cox,
Senior Manager – Supervision**

Introduction and key tasks we undertake

- Manage requests made via the Supervised Firm Contact Form
- Administer the Electronic Prudential Reporting System “EPRS”
- Maintain and develop internal IT systems
- Create various reports and statistics
- Ensure the DFSA Public Register is kept up to date

Supervised Firm Contact Form



Supervised Firm Contact Form

What happens to your request

- Logged into our central database
- Allocated to a TST Relationship Manager using descriptive identifiers
- Request is tracked with reminders being sent when due date is approaching
- Reminders are escalated to management if due date is imminent
- Various reports and analysis are automatically updated on a daily basis for management to monitor

Facts and Figures

- **234** requests for assistance were received in March, April and May 2016. This is a substantial reduction from last year; but.....
- The majority of requests were solved by reviewing and applying directions from the Technical guides or User guides

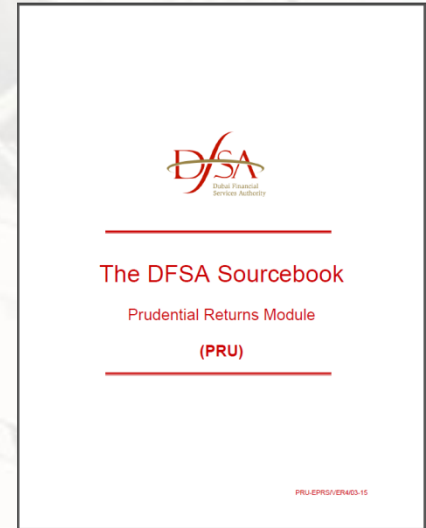
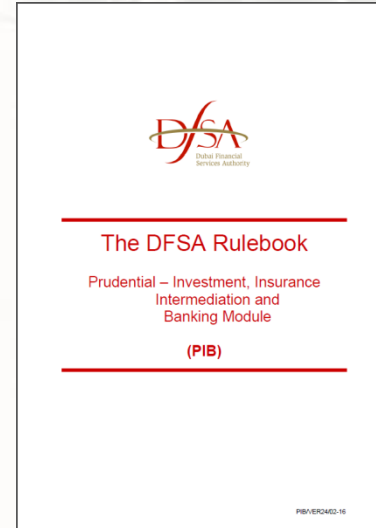
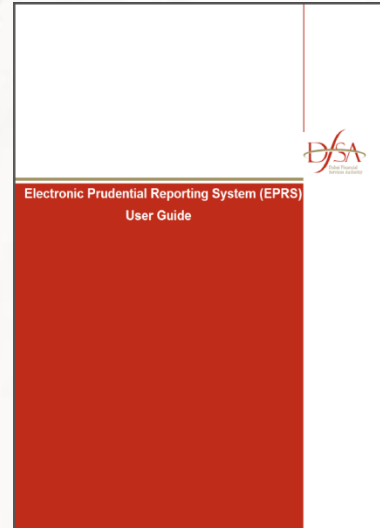
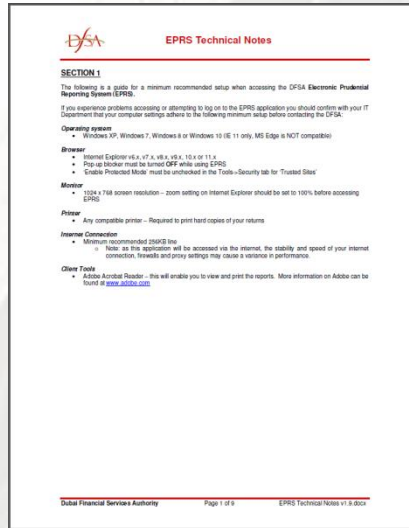
Electronic Prudential Reporting System

Technical Notes

User Guide

Rulebook

Sourcebook



Electronic Prudential Reporting System

Hints and Tips

- EPRS Administration takes place 2/3 weeks before each quarter end
- Please commence your inputs as soon as possible after quarter end. Remember there is a \$1,000 incentive
- If you delegate EPRS input, ensure the persons you delegate to understand the system and process



The Future

- A new and improved version of Oracle's Hyperion (the platform upon which EPRS is based upon) is being assessed. When implemented it is intended to make the EPRS user experience better for everyone
- The new Hyperion should fix issues such as page numbering and printing errors
- The new Hyperion is expected to be implemented Q1 2017

Electronic Prudential Reporting System

Monitoring

The EPRS system automatically informs us of the following:

- Who has not submitted their EPRS return
- Who has incorrectly submitted their EPRS return
- Who is in breach
- Significant differences from previous submissions
- Significantly differences from peer submissions

Phase 1

- Annual Anti-Money Laundering Return
- Application forms for Qualified Investor Funds
- Representative Office applications
- Applications for Advisors and Arrangers
- Self Certifications



CONSULTATION PAPER NO. 105

14 FEBRUARY 2016

ONLINE APPLICATIONS AND SUBMISSION OF DATA TO THE DFSA



Thank You