

Navigating the Future of Financial Regulation: Insights and Updates from the DFSA



Legal Disclaimer

Disclaimer no DFSA reliance:

- This presentation is only intended to provide a general and informal overview of the matters stated in it. This presentation is not any form of, and must not be relied upon on any basis whatsoever, as legal, tax, financial, professional or any other form of advice and is provided on a general, non-binding basis only.
- You should consult and seek advice from your own appropriate legal and other professional advisers as you deem appropriate, including on relevant legislation and Rules that may apply to you. This may include, but is not limited to, considering the extent to which any UAE Federal laws or Dubai laws or DIFC laws and regulations apply.
- The DFSA makes no representation or warranties as to the accuracy, completeness or timeliness of any of the information in this presentation.

Supervision Update

Justin Baldacchino, Managing Director, Supervision



Strategic Focus Areas

In relation to our 2025-26 Business Plan

Delivery

- Deliver our regulatory functions and effective enforcement
- Evolve the regulatory and legal framework
- Deliver organisational capabilities as the DIFC grows
- Enable fair, transparent and efficient markets

Engagement

- DIFC community
- Federal and local authorities
- International standard-setting bodies
- Regulatory counterparts
- Regulated community

Innovation/Cybersecurity

- Utilise technology for process enhancement and efficiency
- Deliver digital transformation
- Build a data-driven regulator
- Focus on cybersecurity i.e. Threat Intelligence Platform, Sim

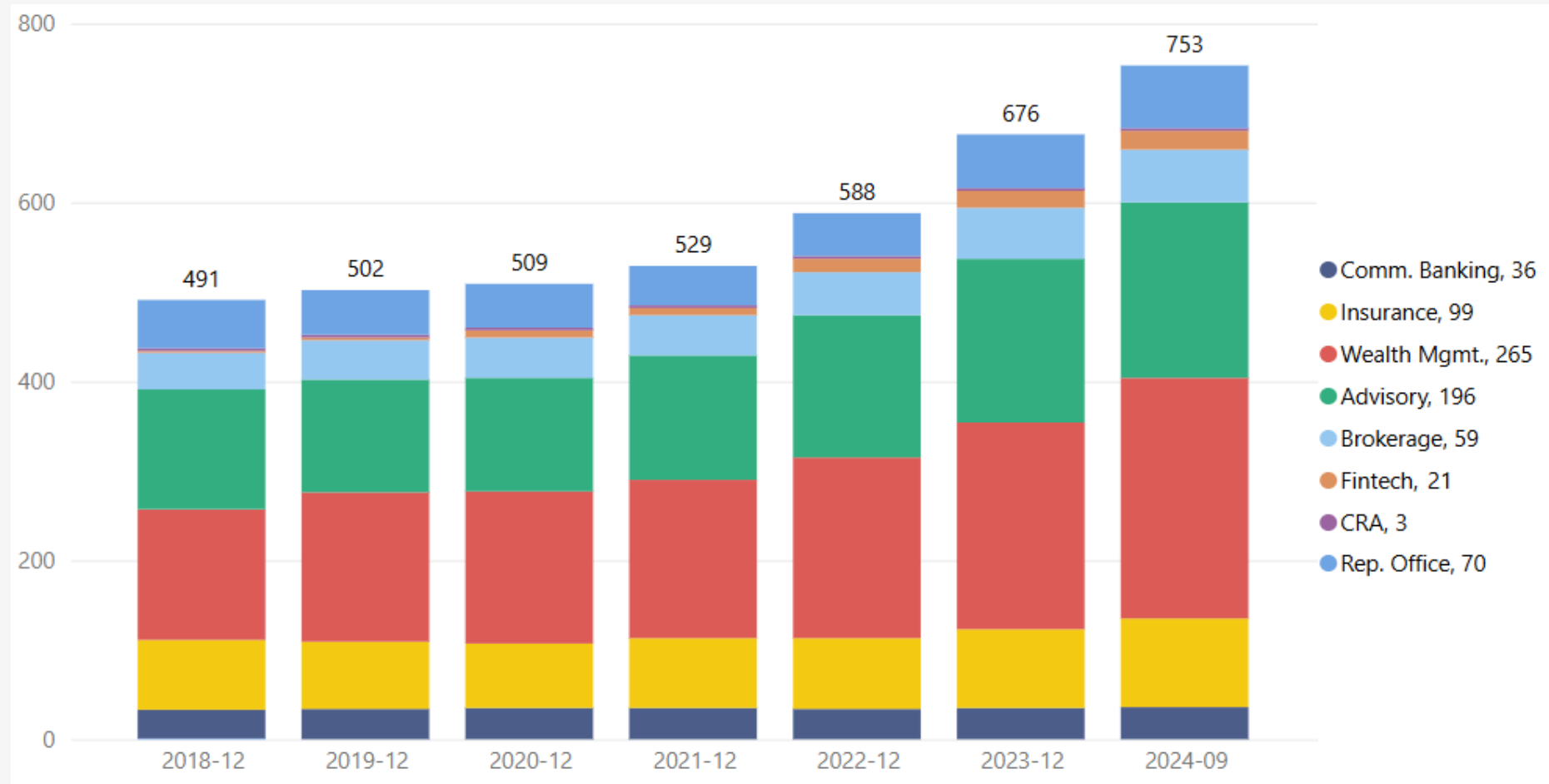
Sustainability and Financial Crime

- Implement our 2025-27 Sustainable Finance Roadmap
- Hosting a joint Climate Finance conference in 2025 with the Hong Kong Monetary Authority
- FATF Mutual Evaluation 2026



Number of Authorised Firms

(As of 30 September 2024)



2024 Key Highlights



GLOBAL HIGHLIGHTS

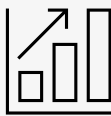
27/ 29

Global Systemically Important Banks in DIFC



\$219b

Total assets in the DIFC as at September



117

Newly Authorised Firms in so far – record high



\$102b

New credit disbursed by DIFC firms so far (up 8% on 23FY)



GROWTH IN BUSINESS ACTIVITIES

\$162b

Assets Under Management in the DIFC as at September (up 12% on 23FY)



\$146b

Assets Under Advisory in the DIFC as at September (up 17% on 23FY)



\$5.9b

Gross Written Premiums in the 12 months to September 2024 (16% yoy growth since 2019).



\$106b

Trade Finance activity so far (14% yoy growth since 2019).



INTERACTION WITH FIRMS

109

Risk Assessments will be completed



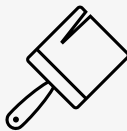
26

Outreach sessions, roundtable engagements, and 'Dear SEO' letters with supervised firms.



10

Thematic Reviews completed and/or in progress so far



3,940

Engagements, updates, intel gathering and analysis activities



2024 Key Activities

Prudential

- Risk Assessment and Resolvability Reviews
- Thematic Review: Liquidity
- Macro-Prudential Reporting
- Crisis Simulation Exercise

Conduct of Business

- Risk assessment programme
- Thematic Reviews:
 - Disclosures
 - Complaints Handling
 - Whistleblowing
- Client assets reporting

Audit

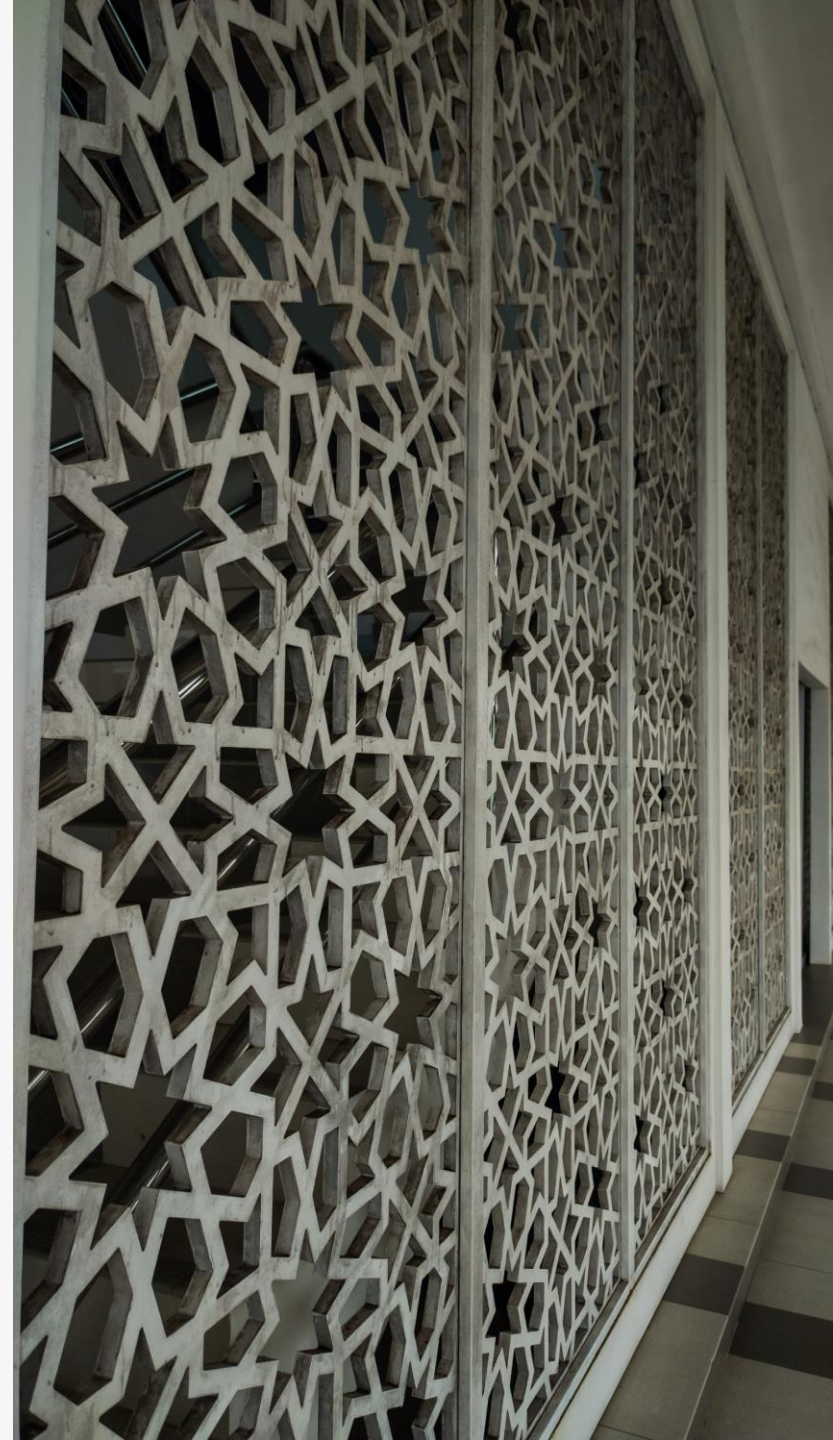
- Thematic Review: Archiving WP
- Audit Monitoring Report
- Audit Regime Review
- Cooperation with UAE Regulators

Financial Crime

- FATF follow-up process
- AML risk assessments
- Thematic Reviews:
 - Targeted Financial Sanctions – Insurance sector
 - Continuing Professional Development – MLROs

Innovation & Technology

- Cyber Thematic Review
- Cross Sectorial Reviews:
 - Crowdfunding
 - Money Services
- Engagements on Innovation & Cyber



2025 Areas of Focus

Risk Assessments

- Credit and funding concentration, operational resiliency
- Insurance compliance and conduct
- Higher-risk firms
- AML risk assessments

Other Key Topics

- Newly licensed firm initiatives
- Continuous monitoring of technology and cybersecurity risk
- Audit Firm governance, culture, workloads
- Data integrity and accuracy

Thematic Reviews

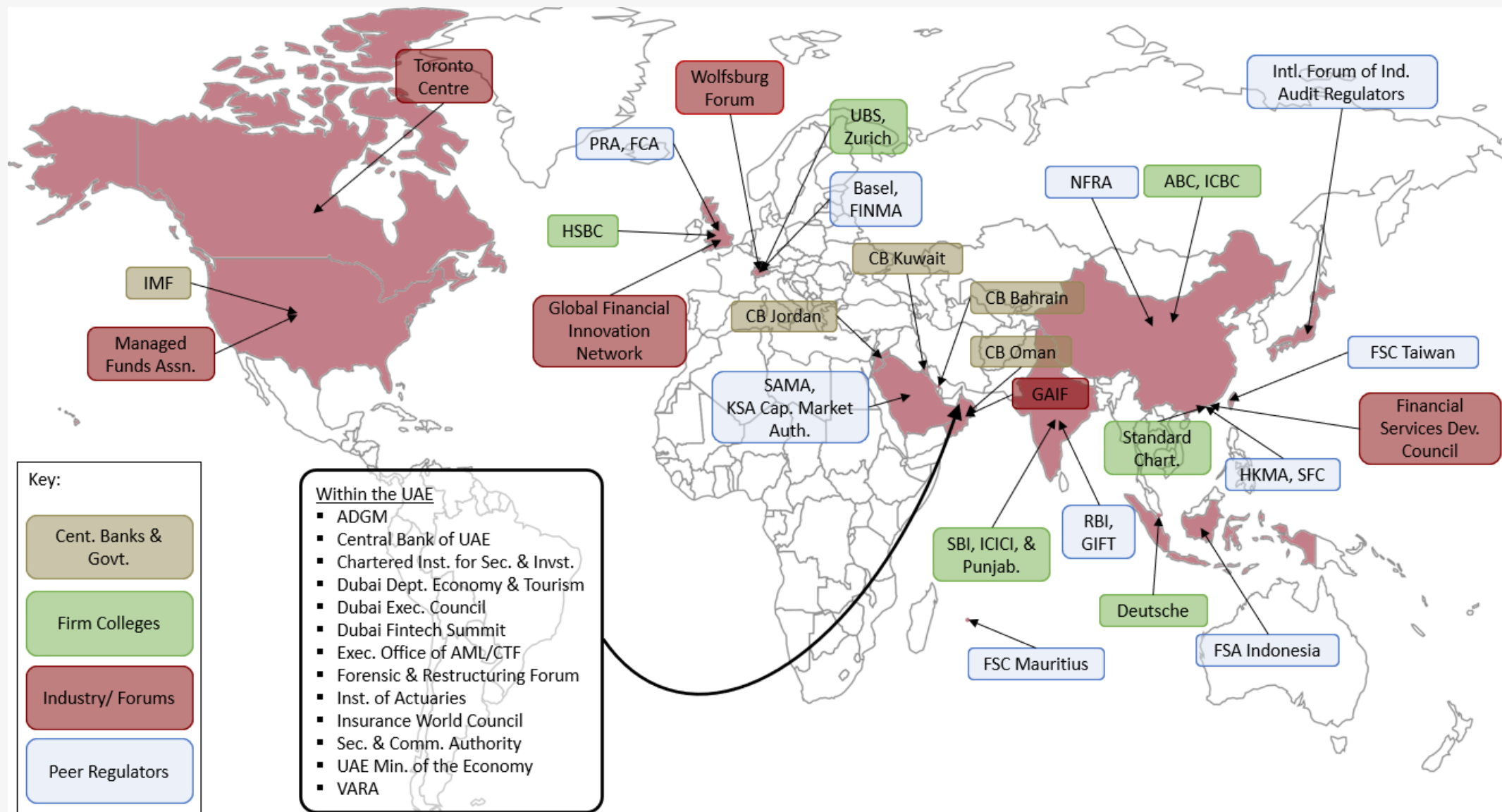
- Insurance monies
- High-growth firms
- Conflicts of Interest
- Financial Crime (Audit Obligations)
- FinTech – effectiveness of compliance functions

Regulatory Collaboration

- FATF Mutual Evaluation 2026
- GCC Regulatory College – Cybersecurity and Artificial Intelligence



International Engagement



Policy Update

Charlotte Robins, Managing Director, Policy & Legal



Policy and Legislative Developments



CLOSED CONSULTATION PAPERS				OPEN CONSULTATIONS
Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3-Q4 2024
<i>Banking Credit and Counterparty Risk</i>	<i>Miscellaneous Changes</i>	<i>Updates to the Regulation of Crypto Tokens</i> <i>Changes to the Audit Regime</i> <i>Changes to the DFSA Fees</i> <i>Updates on the regulation of crowdfunding</i> <i>Credit Funds, REITS and Public Property Funds</i>	<i>Interest Rate Risk in the Banking Book</i> <i>Updates to the Client Assets regime</i>	<i>Enhancing proportionality in prudential regulation</i> <i>Changes to the DFSA's statutory objectives</i>

Relevant legislative amendments have been enactedProjects in progress

D33 Strategy

Market Engagement

- Call for evidence on credit funds
- Tokenisation roundtable
- Feedback statement on the changes to DFSA fees
- Explainer on the regulation of Crypto Tokens
- Market outreach on Client Assets
- Market outreach on Crowdfunding
- AI Roundtables and AI Survey
- Feedback statement on the interest rate risk in the banking booking (IRRBB) (*planned for December 2024*)



Planned Key Policy and Legislative Initiatives – 2025/26

Basel III

Operational
Resilience

Voluntary
Carbon
Markets

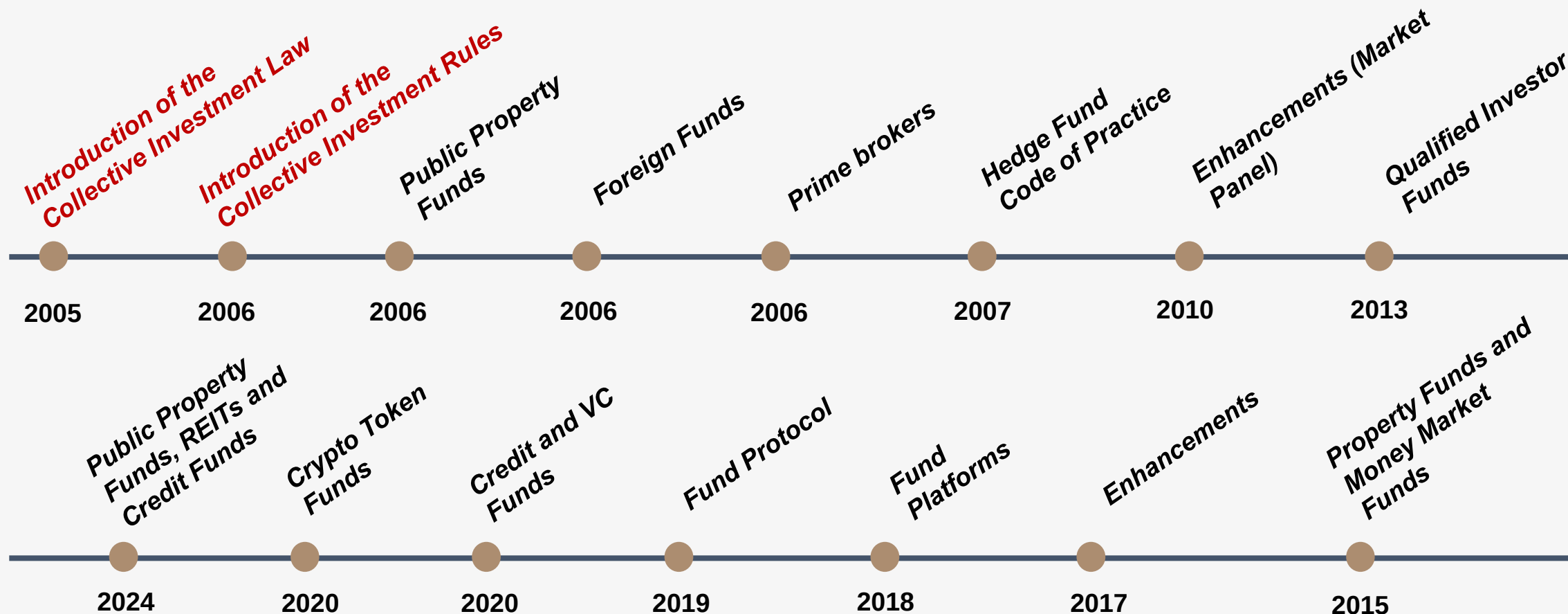
Corporate
Governance

Update of the Regulatory
Policy and Process
Sourcebook (RPP)

Holistic review of
the collective
investment funds
regime

Islamic
Finance

Funds – Framework Evolution



Funds Framework – Change Drivers

Considerations	Output
Internal feedback and 15+ years of supervisory experience	More streamlined architecture
External feedback	Modernised elements of the framework
Applications for waivers and modifications	More risk-based approach (investor protection, proportionality)
Fund industry growth in the DIFC	New developments
Market developments worldwide	Incorporating international best practices
Changes in international standards	Updates against international standards



Artificial Intelligence

How is AI used in financial services?

AI enables financial services institutions to improve the efficiency, accuracy and speed of such tasks as:

- Data analytics
- Forecasting
- Investment management
- Risk management
- Fraud detection
- Customer service and more

What has the DFSA been doing?

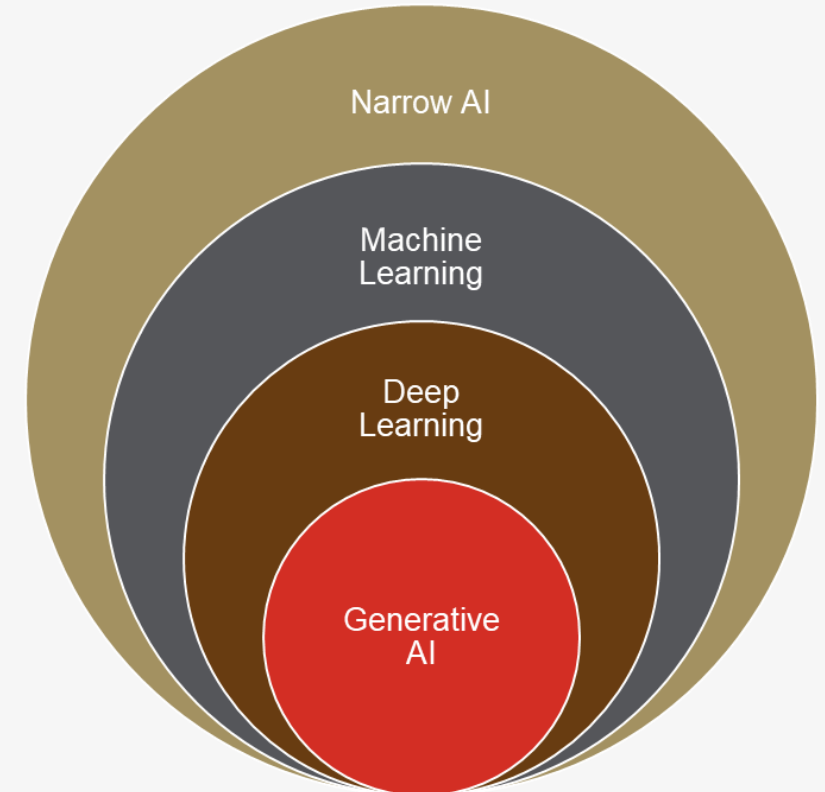
- Firm engagement and roundtables
- Firm survey
- Regulatory engagement (domestic and global)
- Provider engagement

Concerns with the use of AI

- Hallucinations
- Ethics
- Bias and fairness
- Data quality and data availability
- Transparency (or lack of) and explainability
- Cost
- Governance and other legal requirements (e.g., data privacy)
- Talent

What next?

Publication of the key findings of the survey and mapping our requirements and expectations to the use of AI in financial services institutions.



Lessons from Enforcement Actions

Patrick Meaney, Managing Director, Enforcement



Enforcement: 2024 Themes

1. Individual accountability

- Two Senior Executive Officers and a Risk Manager penalised

2. Compliance resources

3. Legal obligations misunderstood

- Don't be cavalier about compliance

4. Investors and the DFSA mislead

5. Obstructing DFSA investigations

6. Client money

- Ensure you have necessary authorisation
- Keep it segregated



Offering Securities: Without an approved prospectus



**\$191,000 imposed on firm for
potentially misleading investors:**

Offering securities without an approved prospectus
Withholding information about its historical financial
performance



Firm used an electronic platform:

To facilitate private placements of securities
But the number of offerees and minimum
placement amount meant it was a public offer of
securities to retail investors



**Firm failed to ensure that it
understood and complied:**

With legal and regulatory requirements that applied
to such an offer of securities

Creating False Documents

- DFSA fined a DNFBP (\$210,000) and its SEO (\$140,000) for misleading the DFSA and failure to comply with a “Here and Now” Notice and obstructing a DFSA investigation:
 - The DNFBP was notified that an AML risk assessment would be conducted by the DFSA.
 - The DNFBP was asked to produce certain information and documents.
 - Certain document asked for by the DFSA did not exist.
 - The SEO instructed staff to create these documents and backdate.
 - The SEO subsequently provided these backdated documents to the DFSA as part of the AML risk assessment.
 - When the DFSA arrived at the DNFBP’s premises to conduct an inspection using a Notice to produce documents “**Here and Now**” the firm refused to give access to the required documents.
 - The firm subsequently complied with the Notice.



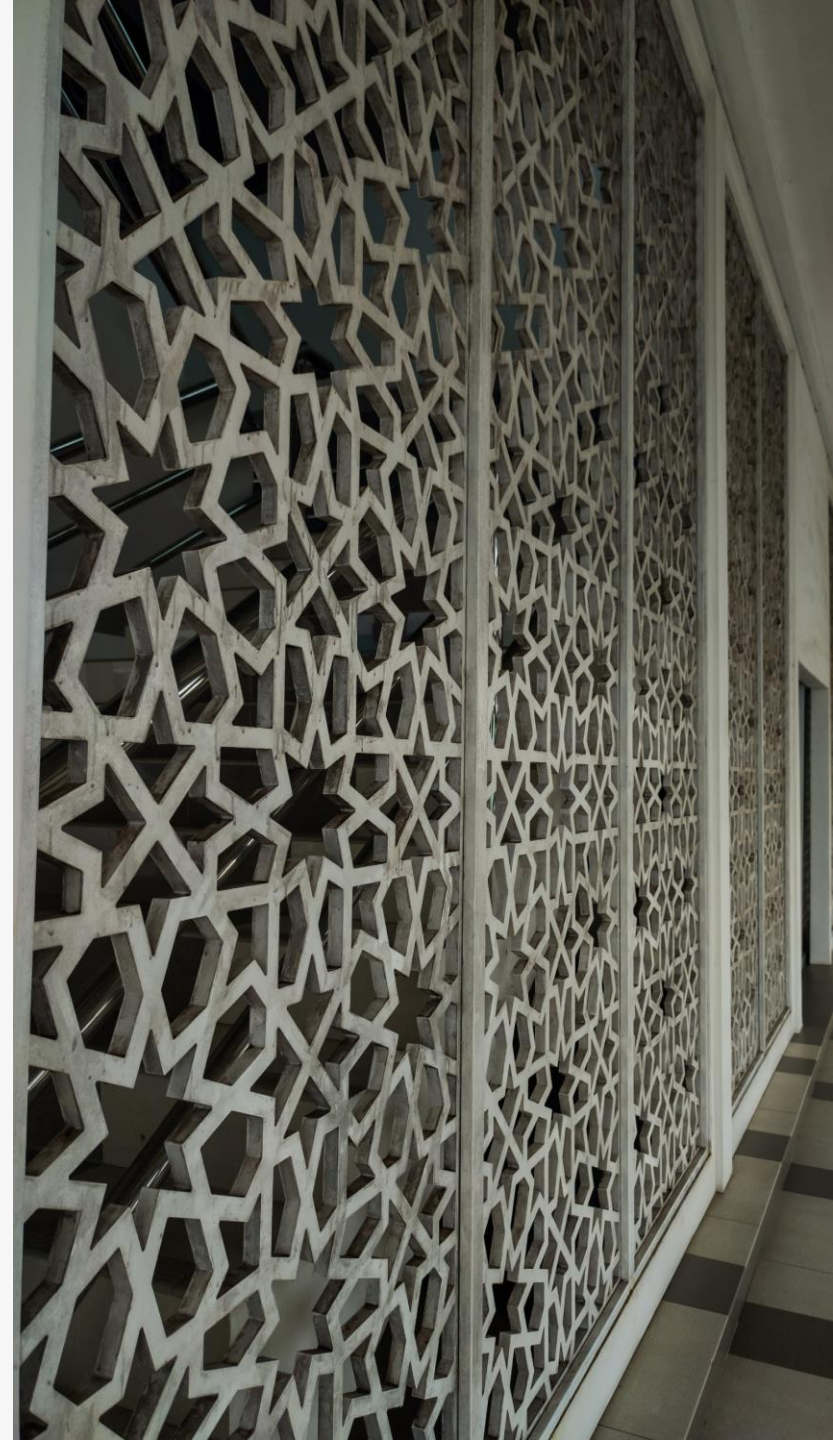
Facilitating Layering



- **Peter Georgiou, former RM at a DFSA Authorised private bank fined \$980,020:**
 - Breaching Article 41B of the Regulatory Law (misleading and deceptive conduct) by:
 - Providing information to the firm's Compliance function that he knew to be misleading and withholding materially relevant information when preparing CDD documentation; and
 - Sending a forged email to a client.
 - Breaching article 66 of the Regulatory Law by provided false information to the DFSA in a compelled interview; and
 - Being knowingly concerned in the firm's failure to:
 - Conduct CDD on existing customers at appropriate times, such as when there was doubt over the veracity and adequacy of documents provided for the purposes of CDD or it suspects money laundering in relation to a person in breach of AML Rule 7.2.1 (2); and
 - Perform an adequate assessment of clients' financial markets experience when classifying them as a Professional Client.
- **Mr Georgiou was also prohibited and restricted for committing these contraventions and lacking integrity.**

Misusing Client Money

- **The DFSA fined a firm \$720,905 for:**
 - **Carrying out unauthorised Financial Service activities by:**
 - Entering into a financial services agreement with a client;
 - Receiving funds for the benefit of that client;
 - **Providing misleading and deceptive information** to a bank in connection with transfers it received for the benefit of the client;
 - **Providing false, misleading or deceptive information to the DFSA** regarding its SEO's previous convictions and its bank account opening dates and obstructing the DFSA's investigation by failing to provide a complete set of bank statements;
 - **Holding and controlling Client Money without paying into a Client Account:**
 - **Breaching Principle 1** by failing to observe high standards of integrity and fair dealing
 - **Breaching Principle 9** by failing to arrange proper protection over money belonging to a customer, which it was required to safeguard
 - **Breaching Principle 10** by failing to deal with the DFSA in an open and co-operative manner



Senior Executive Officer fined and banned



- **The DFSA fined the SEO \$186,003 for:**
 - **Being knowingly concerned in the firm's breaches;**
 - **Obstructing the DFSA's investigation;**
 - **Breaching Principle 1** by failing to observe high standards of integrity and fair dealing;
 - **Breaching Principle 4** by failing to deal with the DFSA in an open and co-operative manner; and
 - **Breaching Principle 6** by failing to ensure that OCS DIFC complied with applicable legislation.
- **The DFSA also prohibited and restricted him for committing these contraventions and lacking integrity.**

Broker Misconduct

- **Three types of Inter-Dealer Broker misconduct we have identified recently and will be focusing on are:**
 - Communicating with clients on messaging apps;
 - printing and spoofing; and
 - marking up trades without complying with the conditions for doing so.
- **Have also identified instances of reinsurance brokers misleading cedents about the reinsurance premium charged by the reinsurer.**
 - We will also be looking to see how widespread this practice is, and taking the necessary action to stamp it out.

Licensing Update

Nick Palmer, Director, Authorisation



Headlines



DFSA-regulated population has been growing at record pace throughout 2024



Healthy pipeline at every stage of the process



The population is projected to keep growing in 2025



The DFSA has undertaken several initiatives to improve the Authorisation process

DFSA's Authorisation aims

- The DFSA listened to stakeholder feedback and decided to shake up the way authorisation is done
- A stand-alone Authorisation team was formed in December 2023, aiming to:
 1. Optimise speed-to-decision*; and
 2. Improve the user experience; while
 3. Upholding quality control standards.

**The greatest determinant of speed-to-decision is not the length of time it takes to assess the application. Rather, it's the length of time it sits in the queue waiting to be assessed.*



762

Authorised Firms

110

**Designated Non-Financial Businesses
and Professions (DNFBPs)**

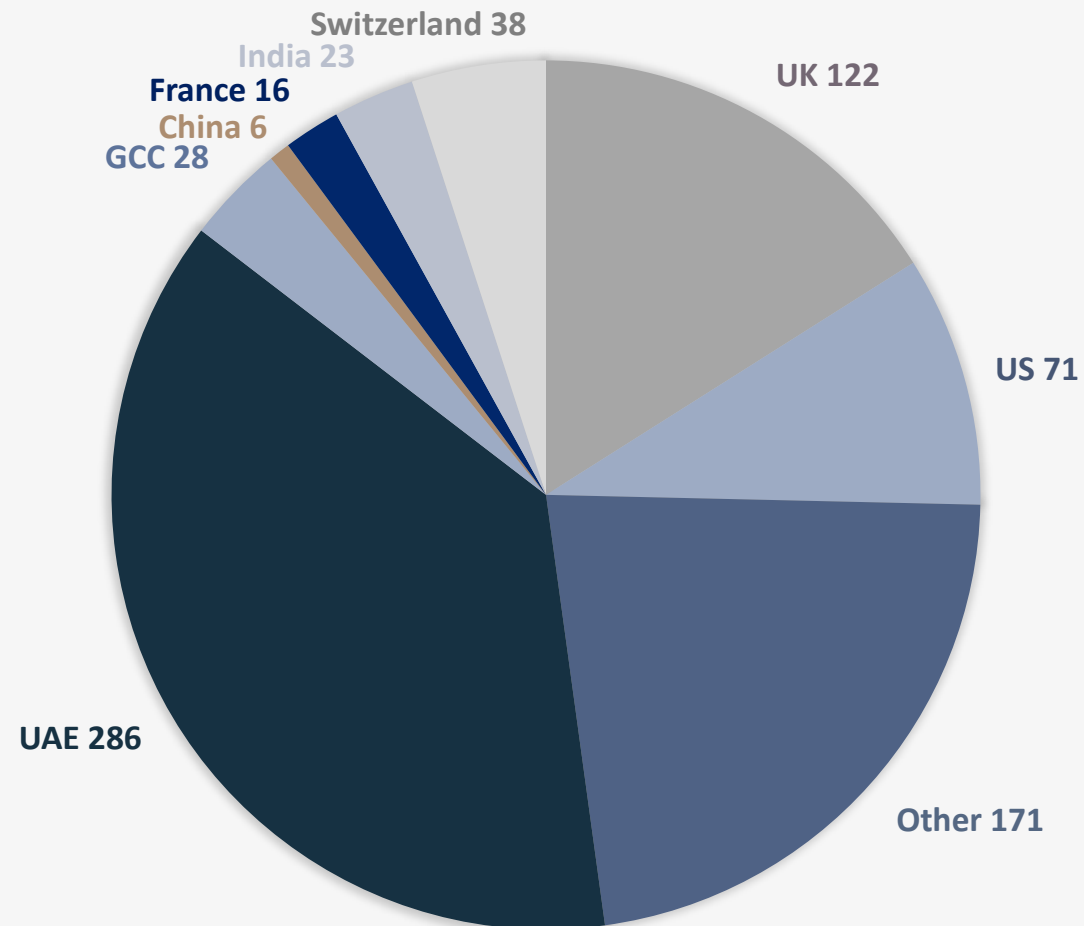
17

Registered Auditors

762

Authorised Firms

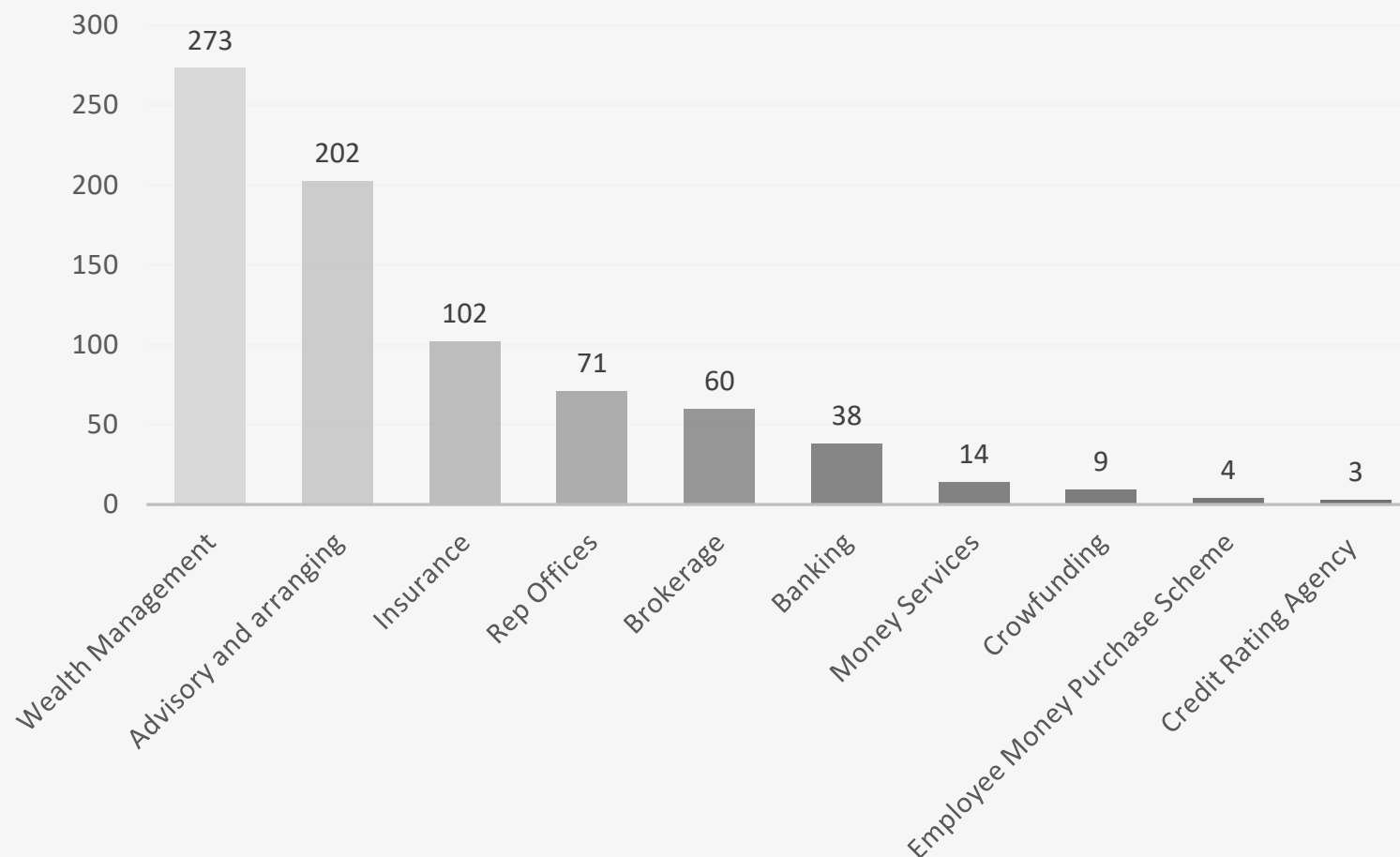
NUMBER OF FIRMS BY COUNTRY OF ORIGIN



762

Authorised Firms

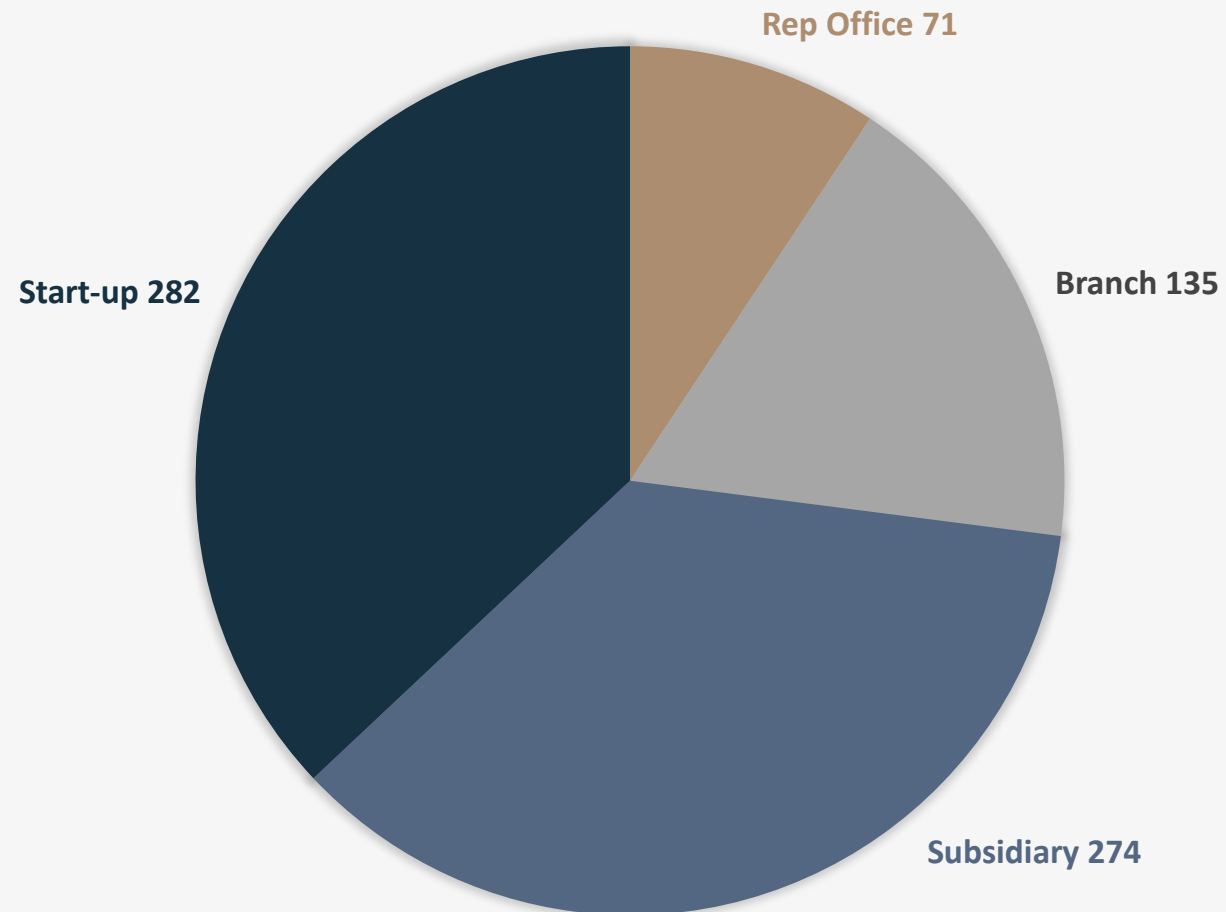
NUMBER OF AUTHORISED FIRMS BY BUSINESS MODEL



762

Authorised Firms

NUMBER OF FIRMS BY LEGAL STATUS



110

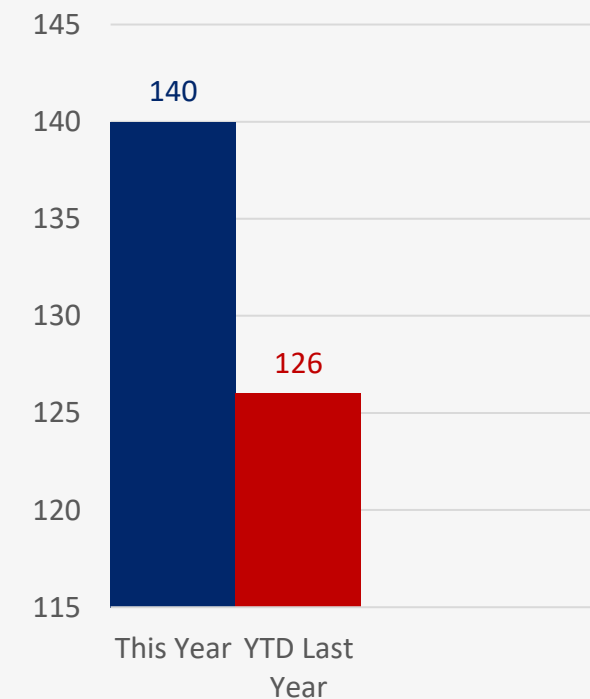
2023 vs 2024

AFs and DNFBP In Principle



147

AFs and DNFBP – YTD Total In Principle

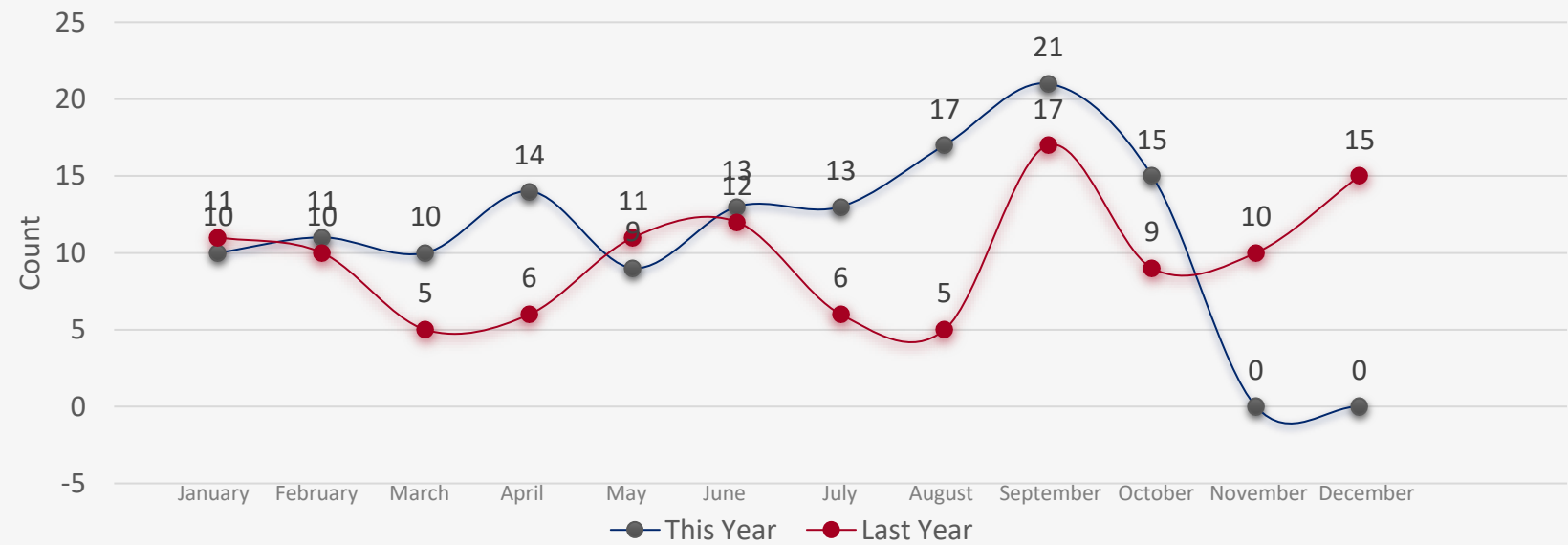


110

2023 vs 2024

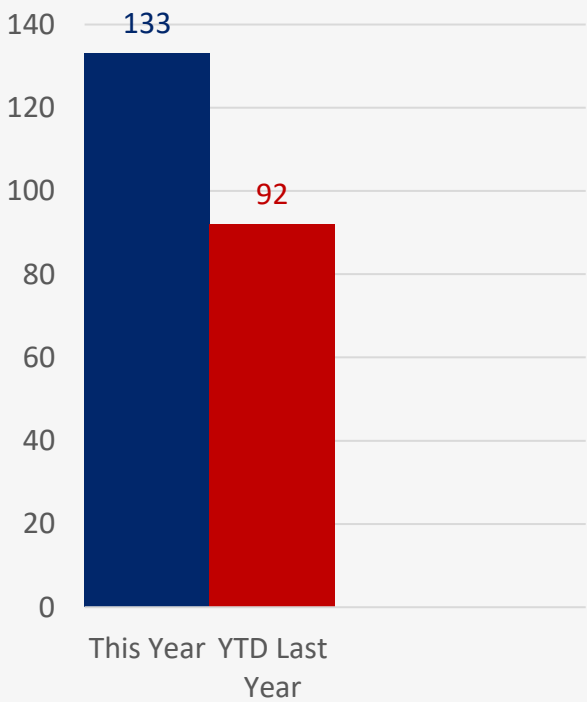


AFs Authorised and DNFBPs Registered

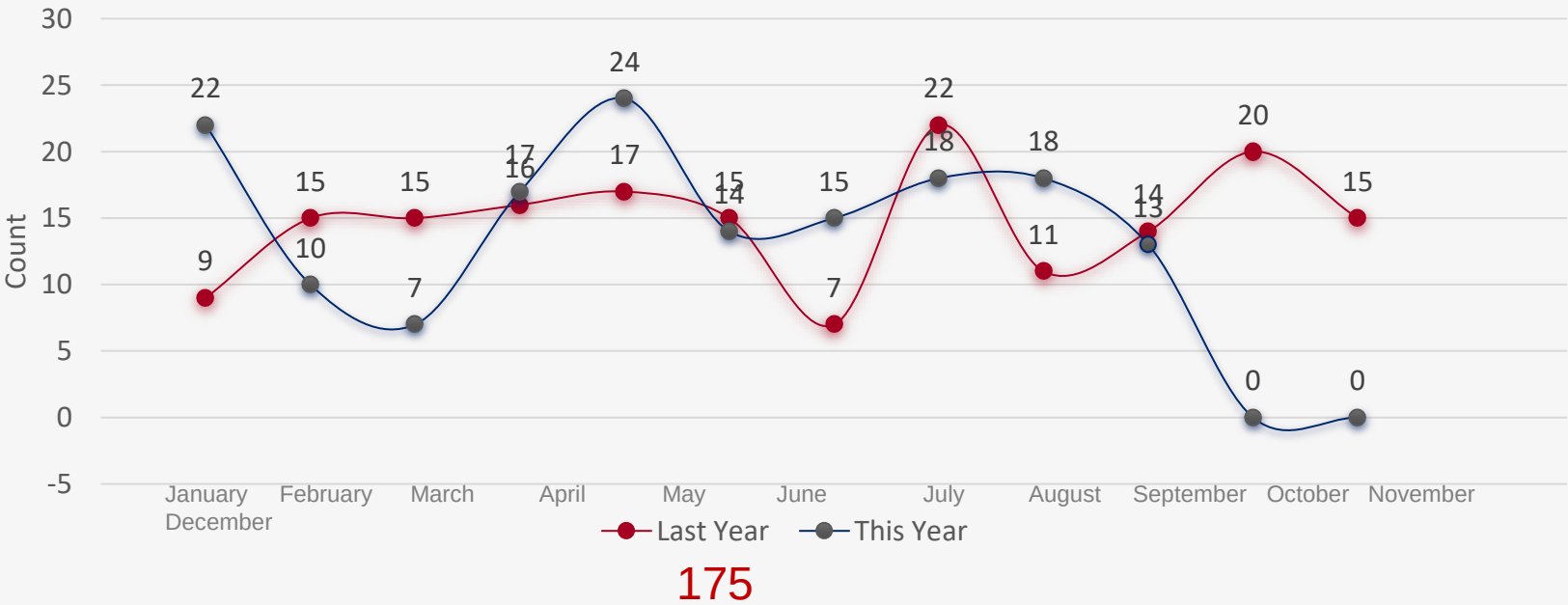


117

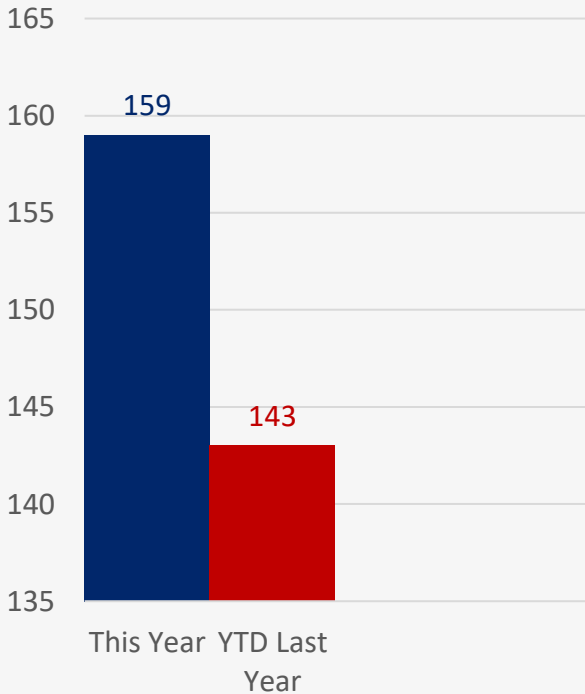
AF and DNFBP – YTD Total Authorisations



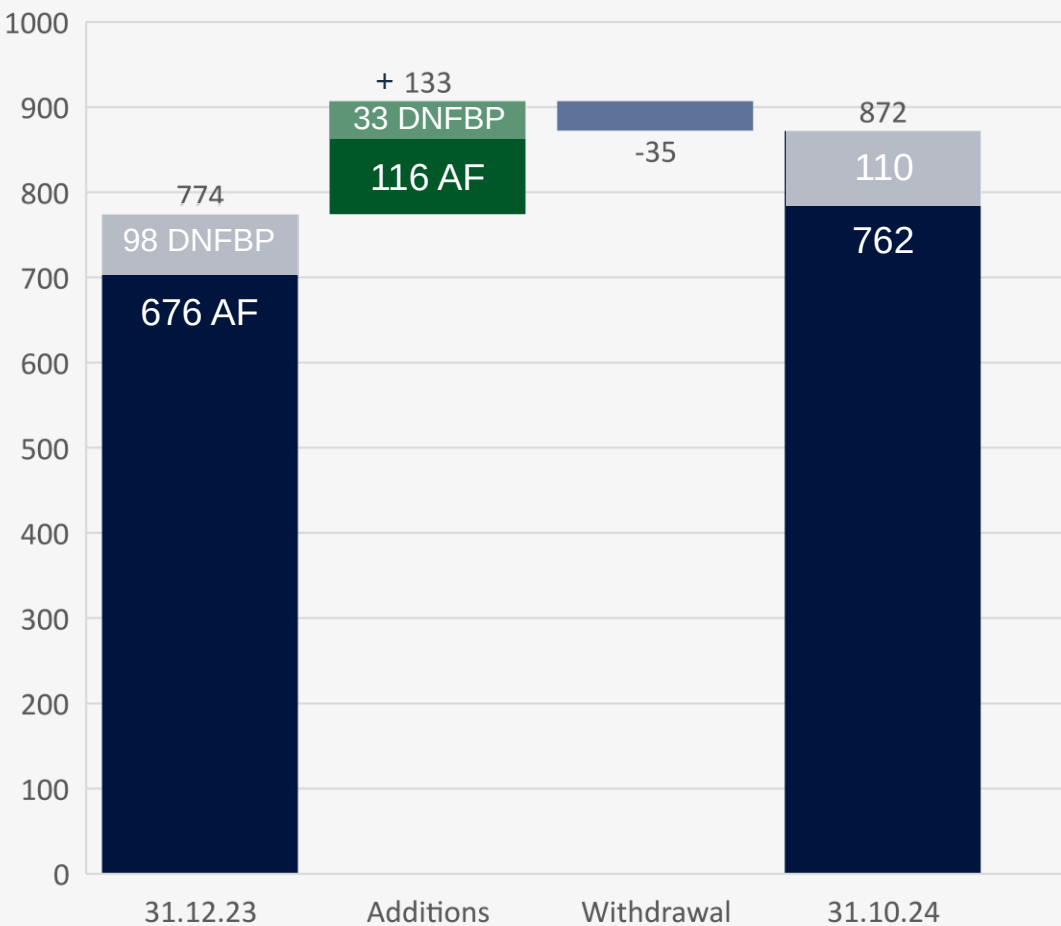
AF and DNFBP Applications Received



AF and DNFBP –
YTD Applications
Received



Authorisation 2024



Pipeline

	Pre-App	Being Assessed	In-Principle Approved
Seeking Authorisation as Authorised Firm	100+	33	71
Seeking Registration as DNFBP	20+	4	5

How have we achieved this?



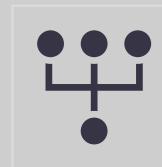
Simplified and streamlined processes where possible



Risk-weighted allocation of resource, aligned to the DFSA Board's revised statement of Risk Tolerance



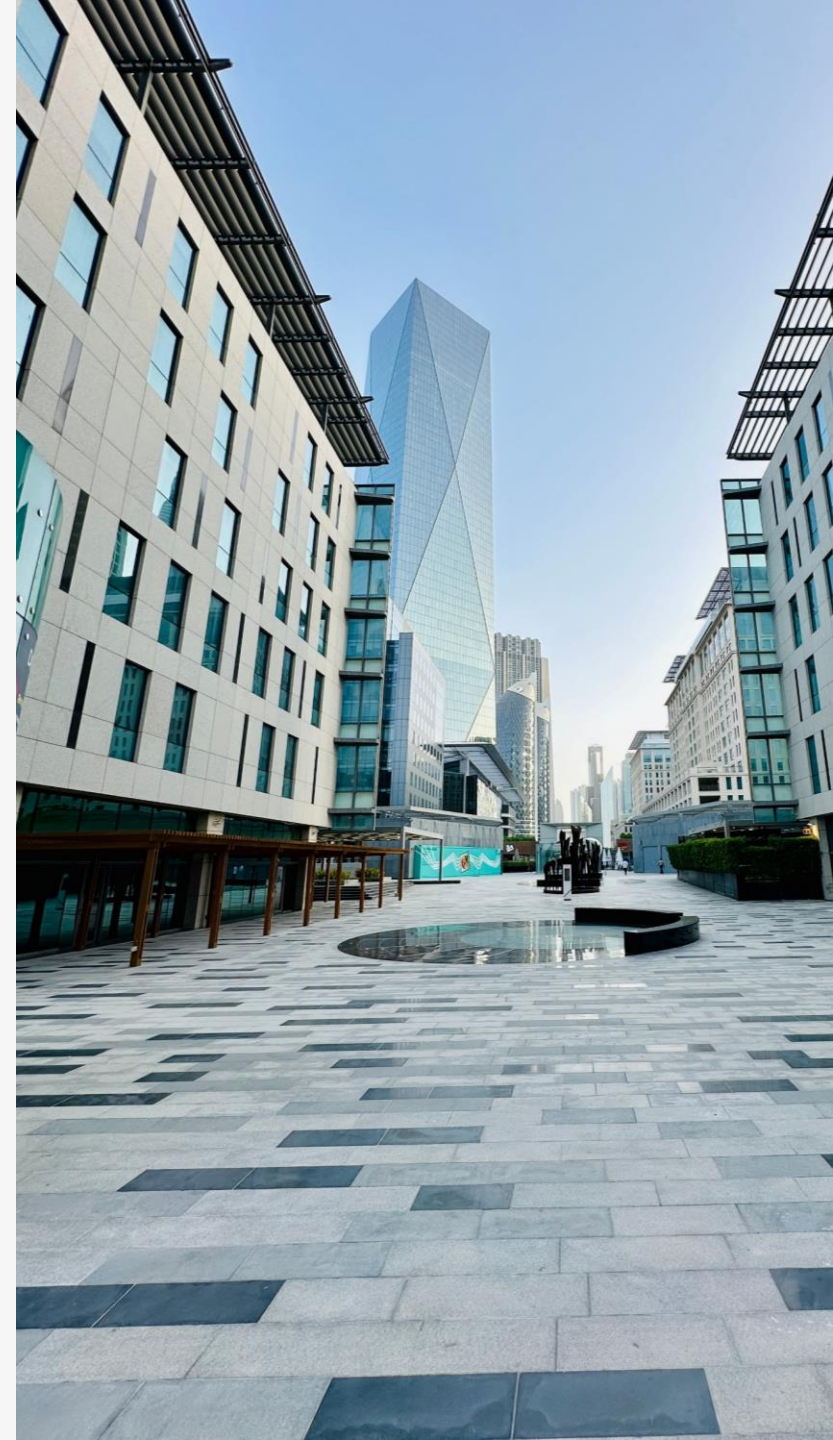
Increased engagement with applicants and their consultants



Greater co-ordination with DIFCA

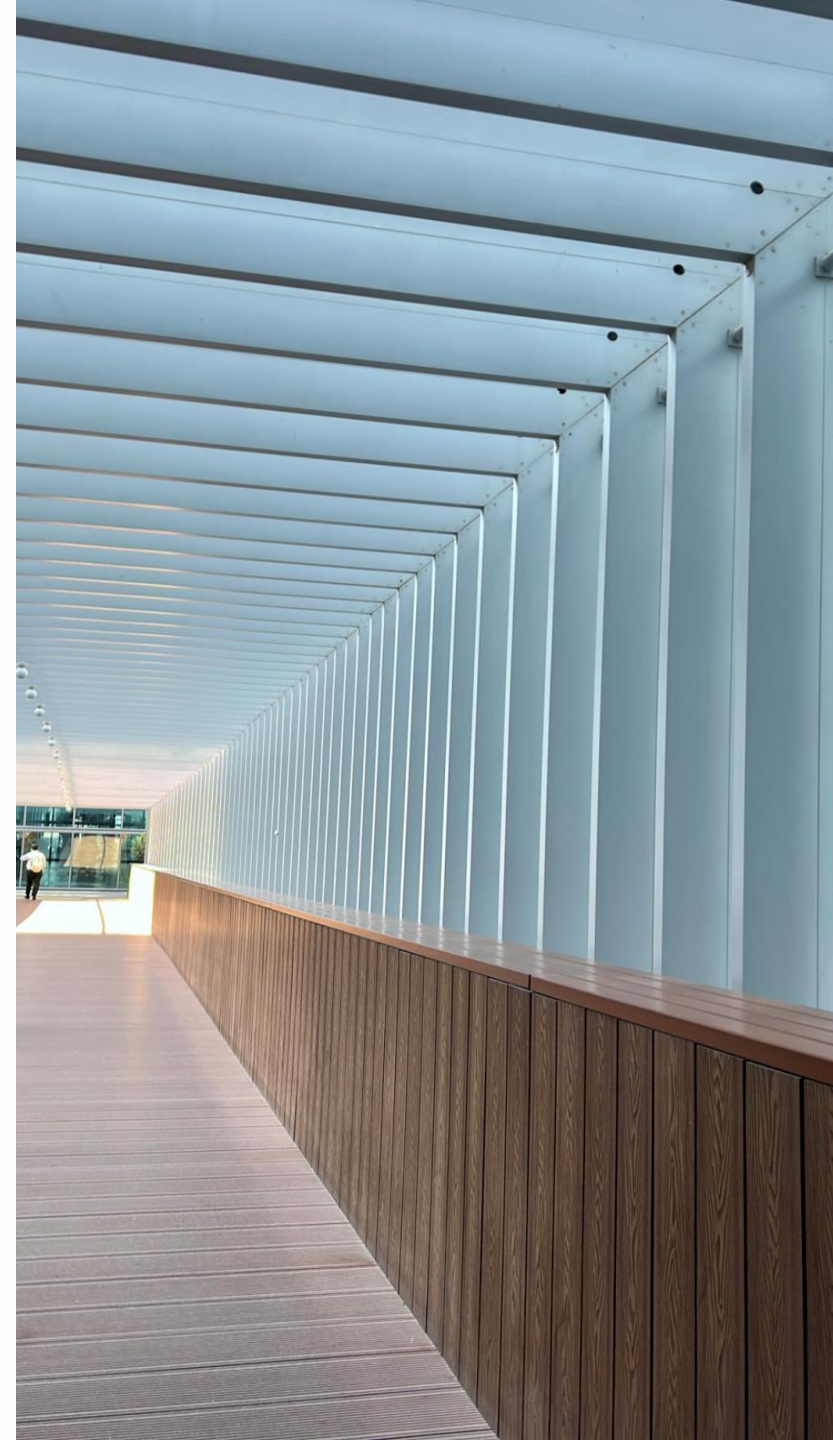
Technological advances

- As part of DFSA's wider digitisation project, the Authorisation process is benefitting from a significant technological upgrade
- Major architectural decisions have been made and implemented, now DFSA is rolling out live capability
- **Already launched:**
 - New online enquiries form for potential applicants
 - New web app allowing Representative Office applications to be submitted entirely online
 - New CRM back-end database for managing those applications
- Sets DFSA up to make greater use of AI in the near future



Looking ahead to 2025

- Roll out technological solutions as part of the DFSA's wider digitisation project
- Further refine the triage process to prioritise high-quality straightforward applications
- Improve our engagement tools, especially on the DFSA website



Financial Crime Conduct Supervision

Sara Kalban, Director, Financial Crime Conduct Supervision

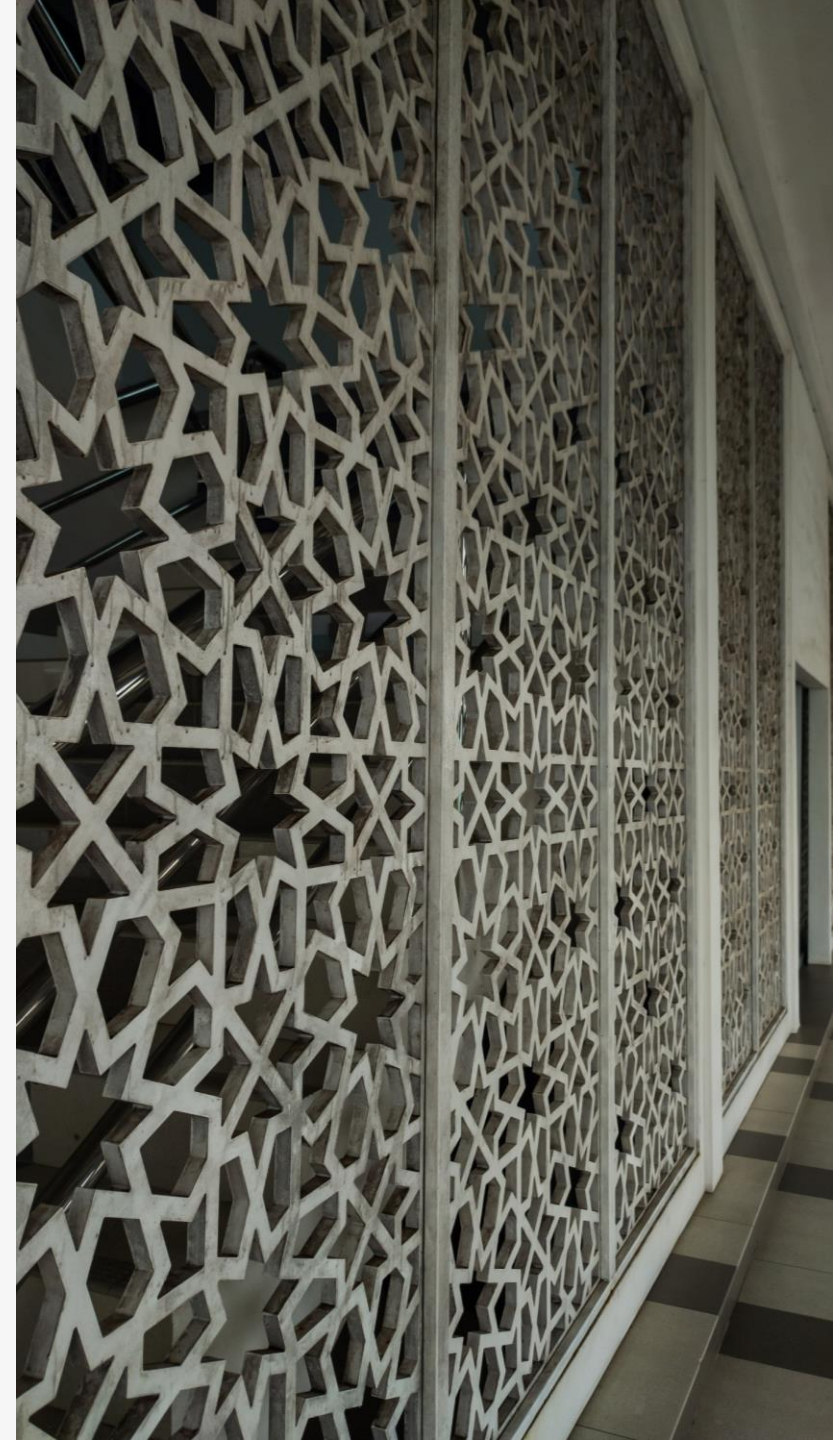


2024 Financial Crime Risk Work Plan

Reviews

Engagement

**National
Engagement**



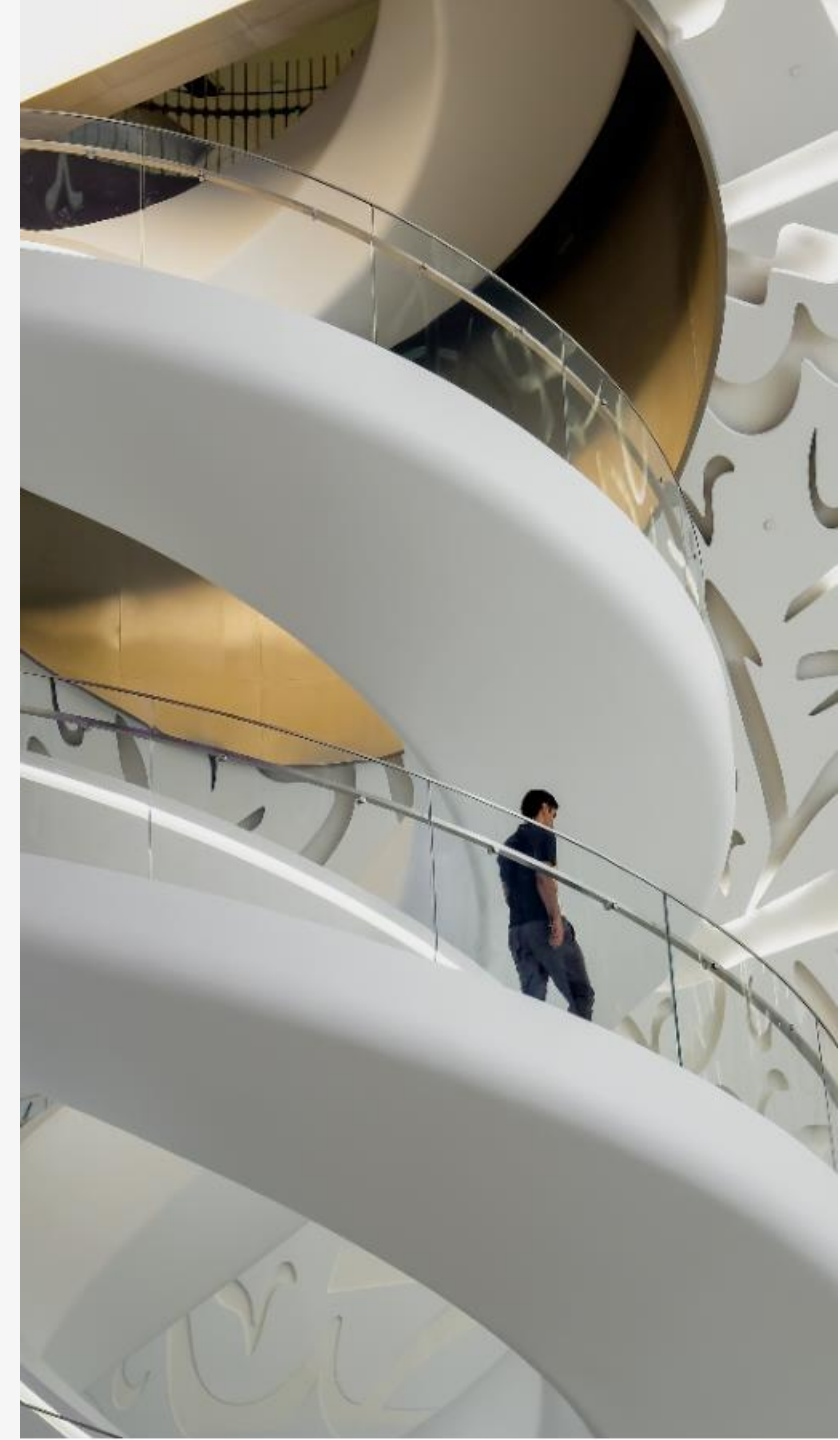
Reviews

- **Anti-Money Laundering Risk Assessments**
- Thematic Reviews
 - CPD requirements of MLROs
 - TFS Compliance in the Insurance Sector
- **Macro reviews**
 - Annual AML Return
 - DNFBP Annual Information Return
 - DFSA SAR Notification Form



Engagement

- **Outreach & Publications**
 - AML Risk Assessment findings for the private banking sub sector
 - AML Risk Assessment findings for the brokerage banking sub sector
 - Frequent risk assessment findings in relation to SARs [in collaboration with the UAE FIU]
 - AML Risk Assessment findings in relation to Business AML Risk Assessment



National Engagement

- The DFSA is a member of the UAE National Anti-Money Laundering and Combatting Financing of Terrorism and Financing of Illegal Organizations Committee (**NAMLCFTC**) and five Sub-Committees.
- **Key Work Streams**
 - FATF Follow up Process
 - FATF Mutual Evaluation 2026
 - Proliferation Financing Risk Assessment
 - 2nd UAE National Risk Assessment
 - FCC National Summit
 - Provide Comments/Feedback:
 - Guidance Documents
 - proposed amendments to Federal AML Legislation
 - UAE AML/CTF National Strategy 2024 – 2027 & National Action Plan



2024 Financial Crime Risk Work Plan



Reviews

AML Risk Assessments

Thematic Reviews

Ongoing Monitoring



Engagement

Outreach & Publications

- Findings from AML Risk Assessments
- Collaboration with UAE Stakeholders
- Financial Crime Prevention Programme (FCPP) Report for 2021 – 2024
- Outcome of thematic reviews



Compliance with Standard Setters

Updates to Anti Money Laundering Module



National Engagement

Representation across NAMLCTFC and Sub – Committee
FATF Mutual Evaluation 2026

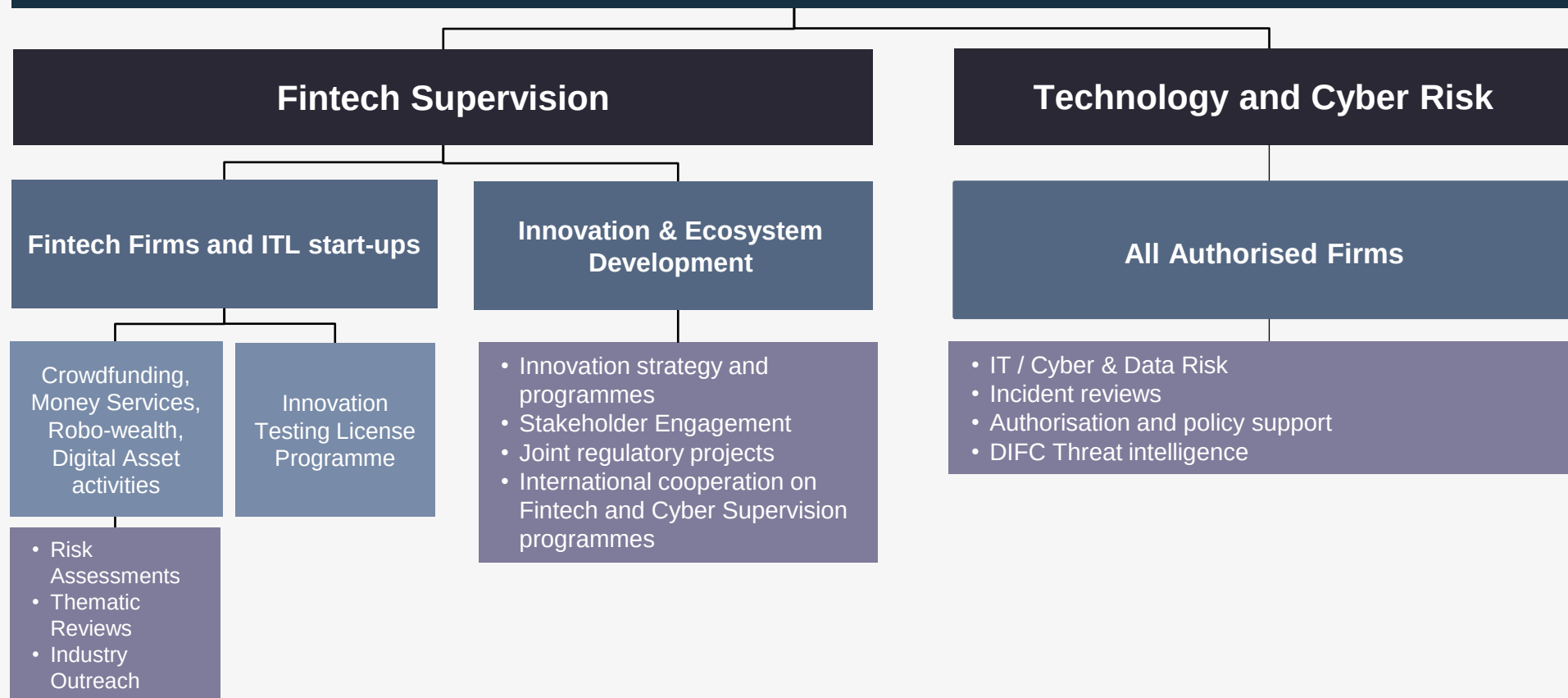


Innovation & Technology Risk Supervision

Herman Schueller, Director, Innovation & Technology Risk Supervision

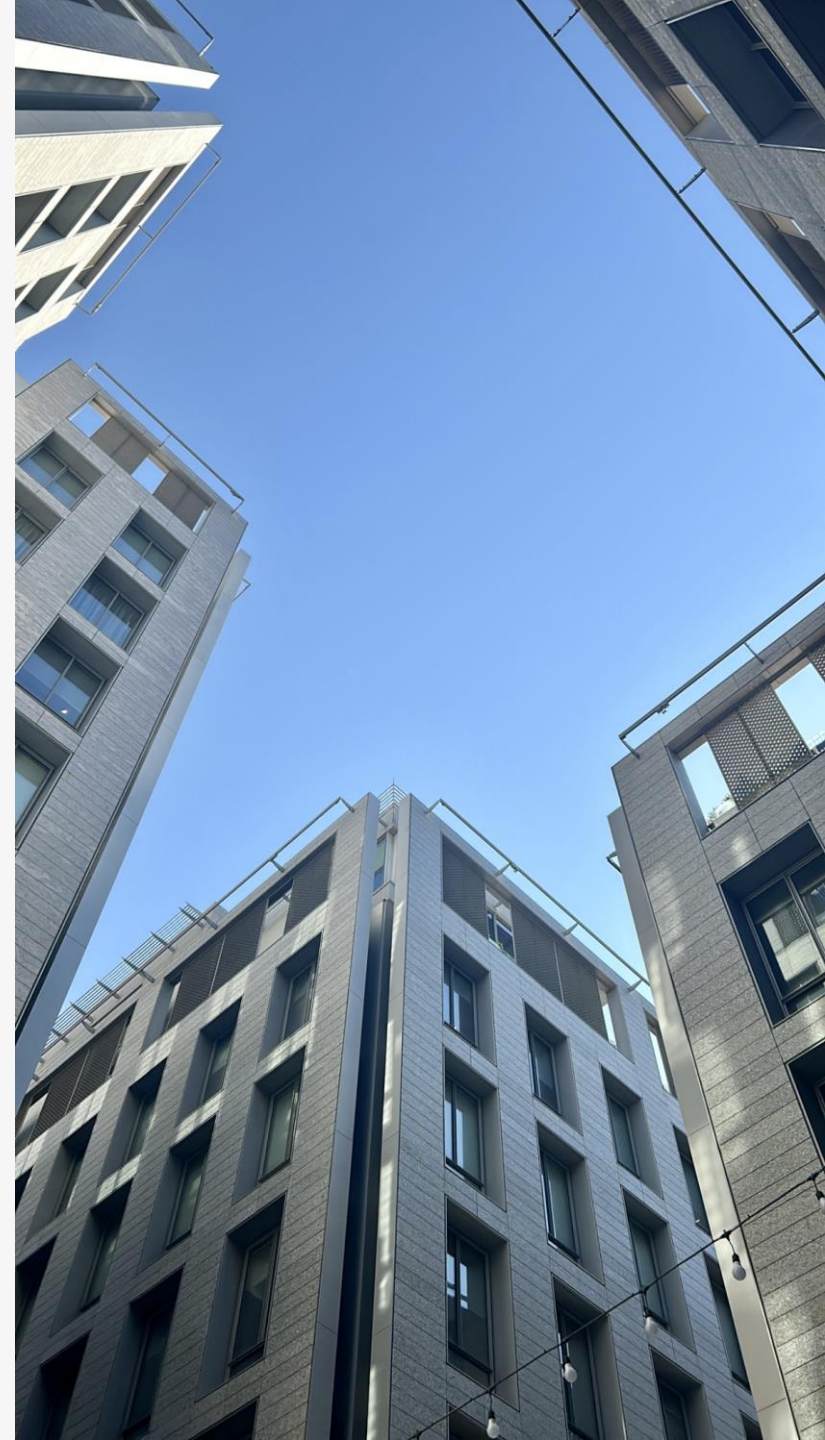


Innovation Technology & Risk Supervision



Innovation 2024 Highlights

- Facilitation for start-up fintech companies
- Licences for authorised firms undertaking Crypto activities
- Cyber Risk Thematic Review across all authorised firms
- **Thematic Review on two different fintech verticals:**
 - Money Services
 - Crowdfunding
- **Industry engagements:**
 - Dubai Fintech Summit
 - GITEX 2024
 - Singapore Fintech Festival
 - DIFC AI Campus
 - UAE Cybersecurity Summit
- Refining supervisory tools for on-going risk-based supervision



Thematic Reviews

– Money Services and Crowdfunding

#1. Money Services:

Risk Management
Framework &
Governance

Strong Customer
Authentication &
User Security
Measures

Technical Standards

Systems & Controls
to detect fraud

35 Firms
represented at the
outreach session

#2. Crowdfunding:

Client Agreements
between Property
Operator and Sellers

Disclaiming
responsibility for
information on the
platform

Key information and
consent required by
DFSA rules

Disclosure
requirements are met

Adequate
arrangements for
compliance review

40 Firms
and external
compliance
support at the
outreach
session

Money Services

– Good practices and DFSA expectations

GOOD PRACTICES

EXPECTATIONS

Risk Management Framework & Governance

Operational risk policy is signed off by the Firm's Governing Body and date is documented.

Firm to ensure its Operational Risk Policy is **approved** by the Governing Body, pursuant to PIB 6.2.2 requirements.

Strong Customer Authentication & User Security Measures

Firm maintains and has documented in its Operational Risk Policy.

All processes relating to SCA, User Security Credentials (USC), exceptions and technical standards are **documented** and satisfies PIB 6.13.3 and 6.13.5.

Systems & Controls to detect fraud

Firm is able to demonstrate that a suitable control environment is in place.

Firm to **demonstrate** to the DFSA its control environment to adequately assess and monitor the identification and management of fraudulent transactions.

Crowdfunding

– Good practices and DFSA expectations



GOOD PRACTICES

EXPECTATIONS

Client Agreements between Property CF Operator and Sellers

- Operators have signed Client Agreements with the seller of a property prior to listing the property on the Crowdfunding platform

Operators must ensure they have proper Client Agreements in place which includes all key information specified in COB App 2

Disclaiming responsibility for information on the platform

- Operators ensure comprehensive and accurate information is disclosed on Crowdfunding platform

Operators must take responsibility for the information they provide about loans, investments or property offered on their platform

Key information and consent required by COB

- Operators demonstrate compliance with COB A2.1.2 regarding certain material information such as conflicts of interest and fee transparency

Operators must include all core information required by COB A2.1.2 in Client Agreements with Retail Clients

Disclosure requirements are met

- Certain information required to be prominently disclosed on the website per COB 11 is readily available and accessible to Clients

Operators must ensure that information required by COB 11 is disclosed in a prominent manner on its website to allow Clients to understand all aspects of the platform and investment made.

Adequate arrangements for compliance review

- Controls required to be in place as a second or third line of defence for review of disclosures and Client Agreements

Operators to establish and maintain compliance arrangements, including processes and procedures that ensure and evidence compliance with DFSA legislation.

Cybersecurity Thematic Review 2024

- **603 Firms**

- **Assessment on key rulebook requirements following cyber risk methodology:**

- ☐ Governance
- ☐ Hygiene
- ☐ Resilience

- **Improvements in Firms' overall cybersecurity maturity comparing with 2022 review.**

- **Key findings and observations including:**

1. Incident response testing
2. Vulnerability assessments
3. Third-party risk management

Results Summary



Technology & Cybersecurity Risk Supervision



**NEW RULES ENFORCED 1ST
JANUARY 2024**



**ON-SITE RISK ASSESSMENTS
(PRUDENTIAL, CONDUCT,
FINTECH & AUDIT)**



OUTREACH SESSIONS



**CYBERSECURITY INCIDENT
REVIEWS**



**DFSA THREAT INTELLIGENT
PLATFORM (TIP)**

2025 Key Themes

Innovation & Technology Risk



Focused Risk Assessment
Programmes



Innovation Programme
- ITL sandbox refresh



Regulatory collaboration
on Fintech



GCC+ Cybersecurity and AI
Regulatory College



Tech & Cyber continuous
monitoring



Innovation thought leadership
on Digital Assets, AI and
Emerging Technologies



International alignment on tech
& cyber risk supervision and
cooperation with security
forums



Prudential Supervision

Mohamad El Khalil, Director, Prudential Supervision



Prudential Risk Supervision

Key Objectives

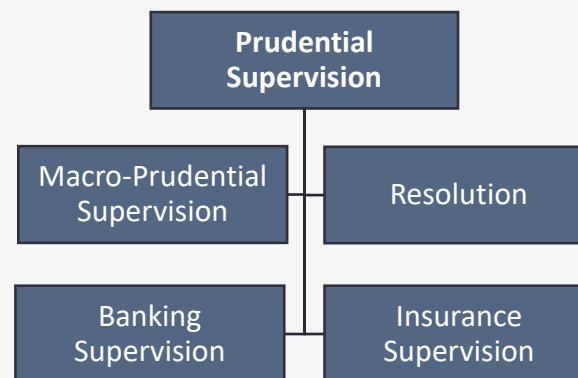
Protecting Depositors and Policyholders

- Protect direct and indirect users and prospective users of the financial services industry in the DIFC.

Maintaining the Financial Stability & Confidence

- Foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk.
- Foster and maintain confidence in the financial services industry in the DIFC.

Team Structure



Business Models Focus

Banking

- Commercial Banks (incl. Conventional & Islamic)
- Credit Providers
- Proprietary Traders

Insurance

- Reinsurers (incl. Re-Takaful)
- Captive Insurance
- Insurance Intermediaries/Brokers
- Insurance Management/Underwriters

Supervisory Approach & Tools

Risk Based

- Lead Supervisors
- Pooled Supervision
- Thematic Supervision

Proactive

Forward Looking

Proportionate

Prudential Risk Supervision

Risk Coverage

Financial Risks

Financial Resilience

- Capital Adequacy
- Liquidity Risk
- Credit Risk: Assets Quality & Concentration
- Interest Rates Risk
- Market Risk
- Reserving Risk

Non-Financial Risks

Macro-Economic and Geopolitical

Business Model and Governance

Operational Resilience

- Operational Continuity
- Outsourcing/Third-party
- Digitalisation & Cybersecurity

Financial Crime

Compliance with Federal Law Restrictions

Climate Related Financial Risks

Other Emerging Risks

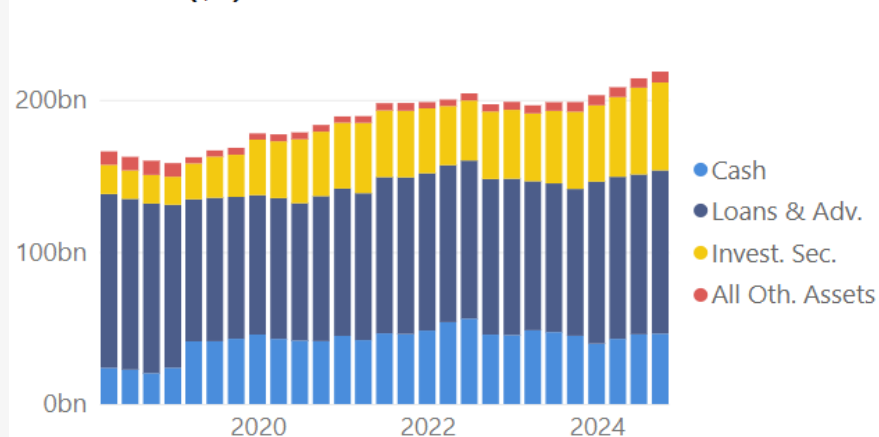
Key Activities

- **Authorisation** (*Banking*)
- **Micro-Prudential Supervision**
 - Offsite Reviews (*Regular + Annual Reporting*)
 - On-site Risk Reviews *i.e* Risk Assessments
 - Supervision Review & Evaluation Process (*SREP*)
 - Stress Testing
 - Recovery
 - Regulatory Engagements & Supervisory Colleges
- **Thematic Reviews**
- **Macro-Prudential Supervision**
 - Peer Reviews
 - Large Exposures
 - Stress Testing
- **Prudential Risks Monitoring & Reviews** (*across all sectors*)
- **Jurisdiction Assessments**
- **Resolution**
- **Policy Support**
- **Divisional and Organisational wide Projects**

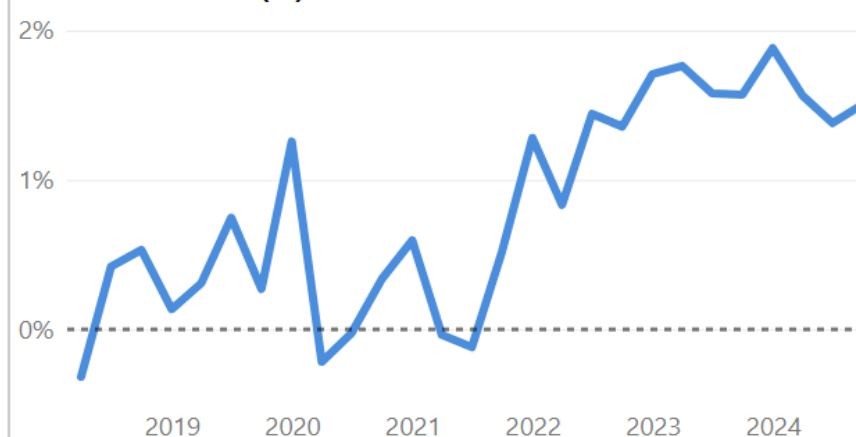
DIFC Financial Strength

DIFC Financial Indicators

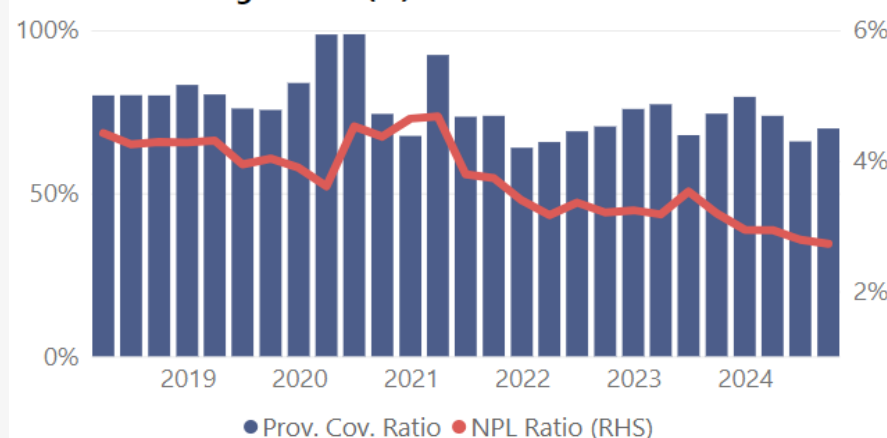
Total Assets (\$b)



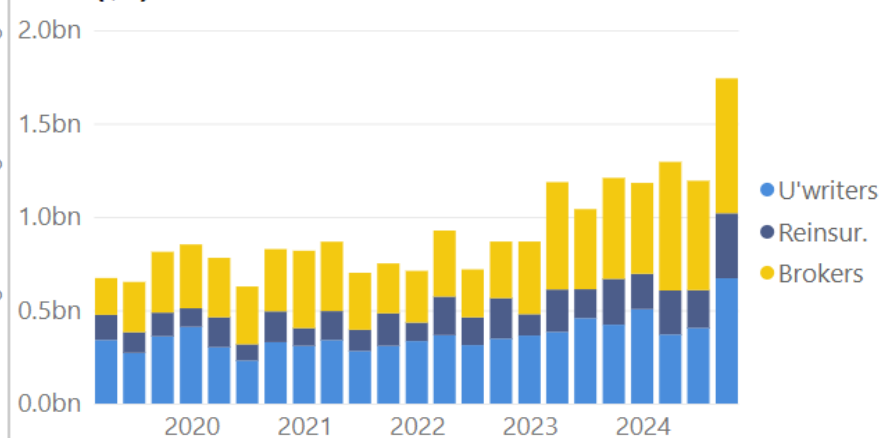
Return on Assets (%)



NPL and Coverage ratios (%)



GWP (\$b)



2024 Key Activities

Prudential Supervision

- Risk Assessments Program 2024 (Banking & Insurance)
- Resolvability Reviews & Resolution Assessments
- Thematic Reviews
 - ✓ Liquidity Risk
 - ✓ Support: TFS Insurance, Cyber, Complaints Handling, Whistleblowing
- Monitoring Key Prudential Indicators
 - ✓ Macro Prudential
 - ✓ Micro-Prudential
- FSAP Self-Assessment
- Crisis Simulation Exercise
- Supervisory Colleges, CMGs & Regulatory Engagements



2024 key observations

General

- Succession Planning
- Risk Appetite and Risk Tolerance
- Segregation of Duties - 3 Lines of Defense
- Internal Audit
- Service Level Agreements
- Documentation and Record Keeping
- Training – Compliance and AML
- Regulatory Reporting

Banking

- Contingency Funding Plan
- Liquidity Stress Testing
- Head Office Account (Branches)

Insurance

- Outsourced Compliance Function
- Fiduciary Duties

Liquidity Thematic Review

Objectives & Scope

- Management of the LCR and the portfolio of HQLA (quality, valuation, control, etc.)
- Scope limited to Firms subject to LCR

Key Observations

- Aggregate portfolio of high quality (>80% Level 1)
- Firms operate with buffers over regulatory minimums
- Level of complexity amongst Firms varies widely
- Firm-specific issues noted and communicated on a bilateral basis for remediation (e.g., inclusion of ineligible security)
- Best practices related to automation, diversification of holdings, and assessment of volatility



LIQUIDITY REVIEW

Assessment of the Implementation
of the Liquidity Coverage Ratio

Liquidity Thematic Review



Key Findings

- Common issues noted requiring action from Firms
 - Use of static values in calculation the ratio
 - Periodic monetization of the HQLA portfolio
 - Inclusion of ineligible securities in the portfolio
 - Testing of volatility of securities
 - Valuation methodology
- Firms are to self-assess against the findings and observations in the report
- Lines of communication open, engage with your Supervisor

2025 key risks

Macro-Economic & Geopolitical Risks

- Geopolitical Uncertainties
- Interest Rates: Impact on Business Models & Revenue Generation
- Others: Inflation, Oil Prices, FX

Financial Risks

- Credit Risk: Assets Quality, Asset Concentration
- Liquidity Risk: Funding Risk
- Interest Rate Risk in the Banking Book

Non-Financial Risks

- Operational Resilience: Business Continuity, Cybersecurity, IT Security
- Third Party Risks
- Data Integrity and Accuracy

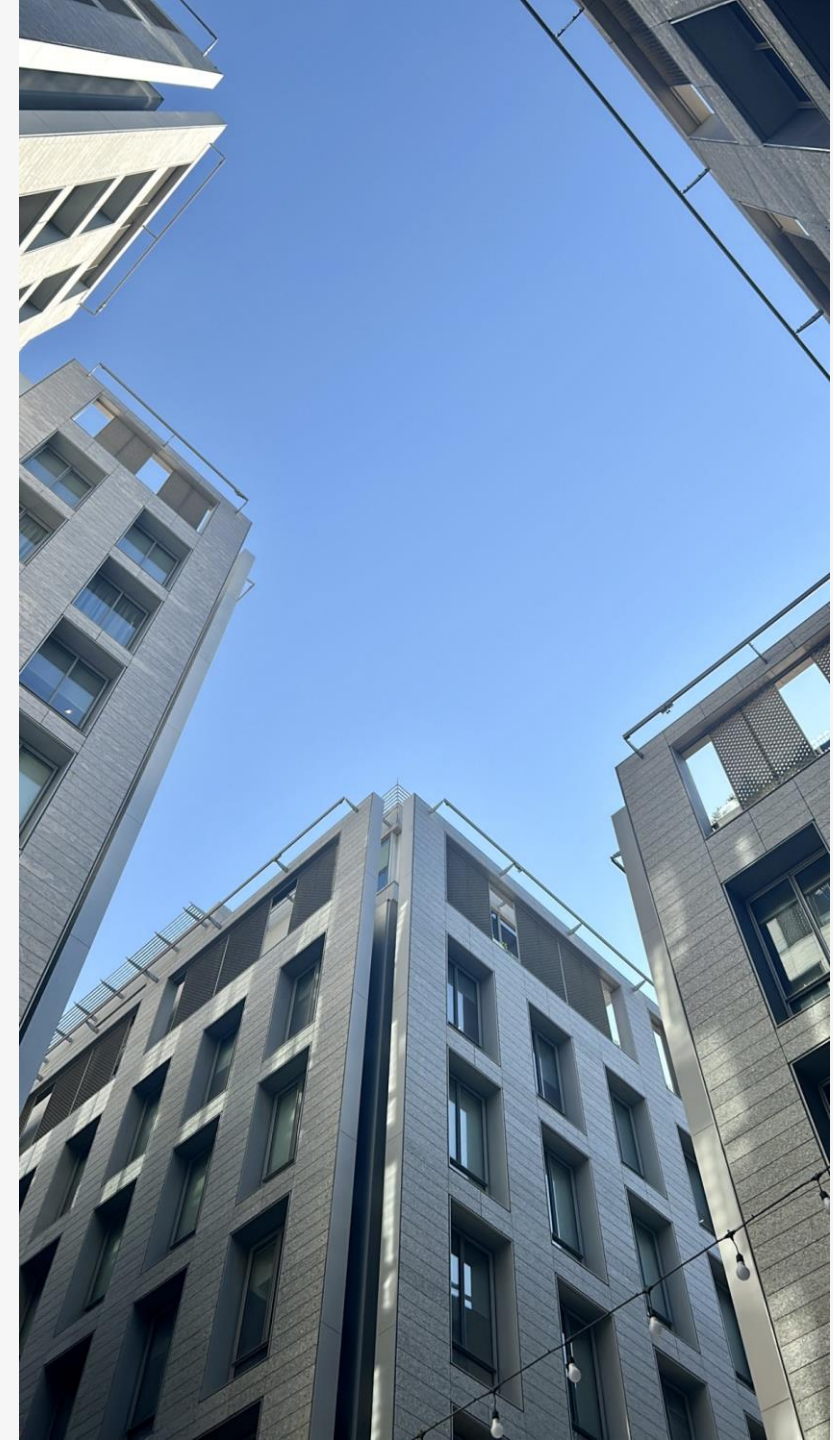
Other Risks

- Financial Crime (AML/CT)
- Compliance & Conduct
- Climate related Financial Risks
- New Technologies incl. Artificial Intelligence

2025 key focus

Prudential Supervision

- Focus on High-Risk Firms
- Monitoring changes in strategies & business models
- Risk Assessment Plan
 - Banking Focus: Credit (Asset Concentration, Collateral, OBS)
 - Insurance Focus: Fiduciary Duties, Compliance Frameworks
- Stress Testing
- Thematic Review: Insurance Monies
- Operational Continuity
- Financial Crime
- Data Accuracy & Integrity
- Resolution & Crisis Management





Conduct Team

Chris Cameron, Director, Conduct Supervision



2024 – year in review

Growth

Firms, activity and competition

Improvement and maturity

Increasing standards and effective practice

Approach

Risk-based, outcomes focused and data-led

Engagement

Industry and stakeholders, at home and abroad



Conduct team: our approach

Operating Model

- Team Based Supervision
- Wider Wealth Management Sector Plus
- Pooled Supervision
- Higher Risk Firms

Risk Based and Data-led Approach

- Thematic Reviews
- Business Model Monitoring
- Risk Assessments
- Processing of portal activities
- Annual Reporting
- Client Assets Reporting
- Fund Registrations
- Periodic Fund Returns

Stakeholder Engagement

- Provide Conduct Risk Support to Stakeholders across the DFSA
- Outreach to Industry & Trade Associations,
- Standard Setters Engagement,
- Government Departments & Regulatory Authorities (Domestic, Regional & International),

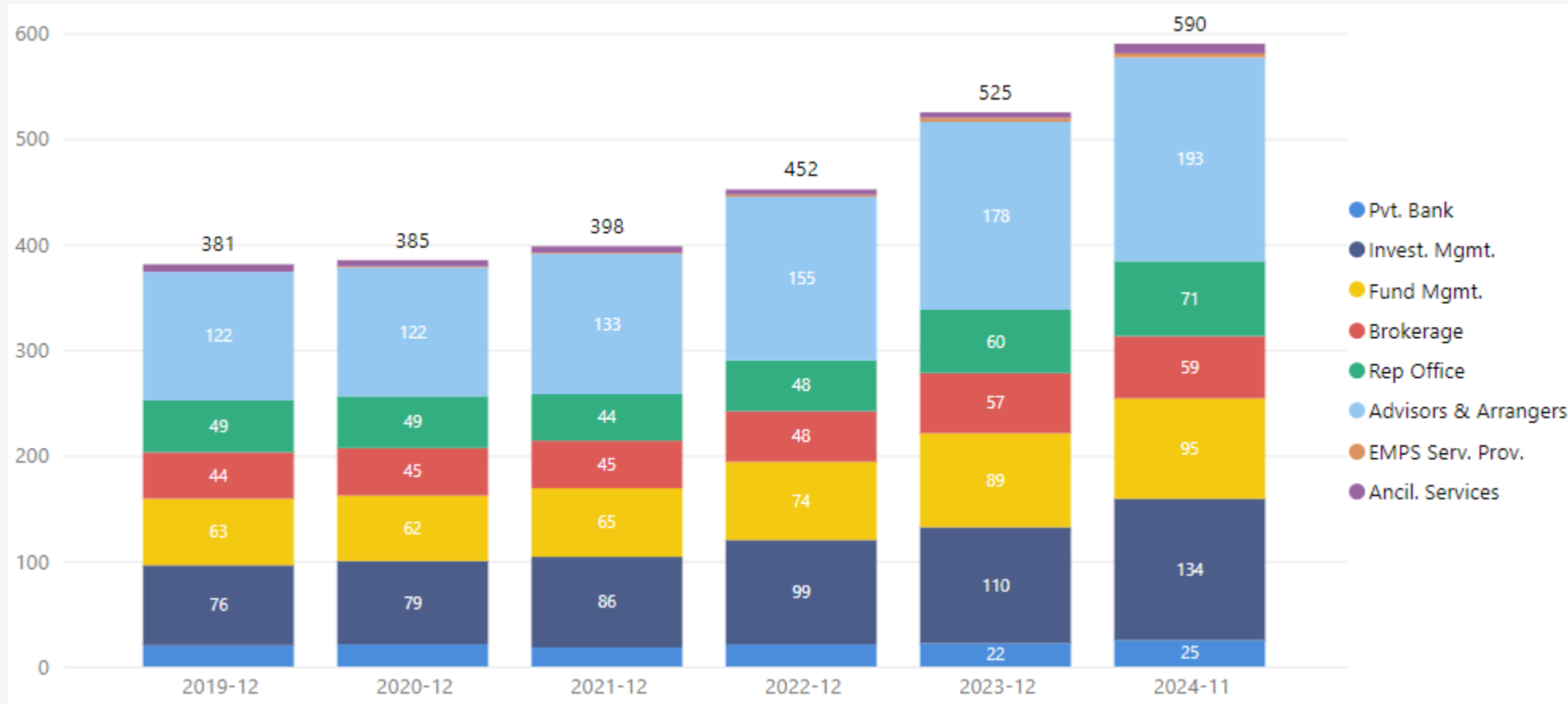
Conduct team business models

Wealth Management	Brokerage	Advisor Arrangers	Employee Workplace Savings	Representative Offices
Private Banking	Platform Brokers	Advisors	DIFC Employee Workplace Savings (DEWS)	Representative Offices
Investment Management	Executing Brokers	Arranger	Associated Service Providers	
Fund Management	Arranging Brokers			
Custodians*				
Fund Administrators*				
Trustees of Funds*				
Trustee Service Providers*				

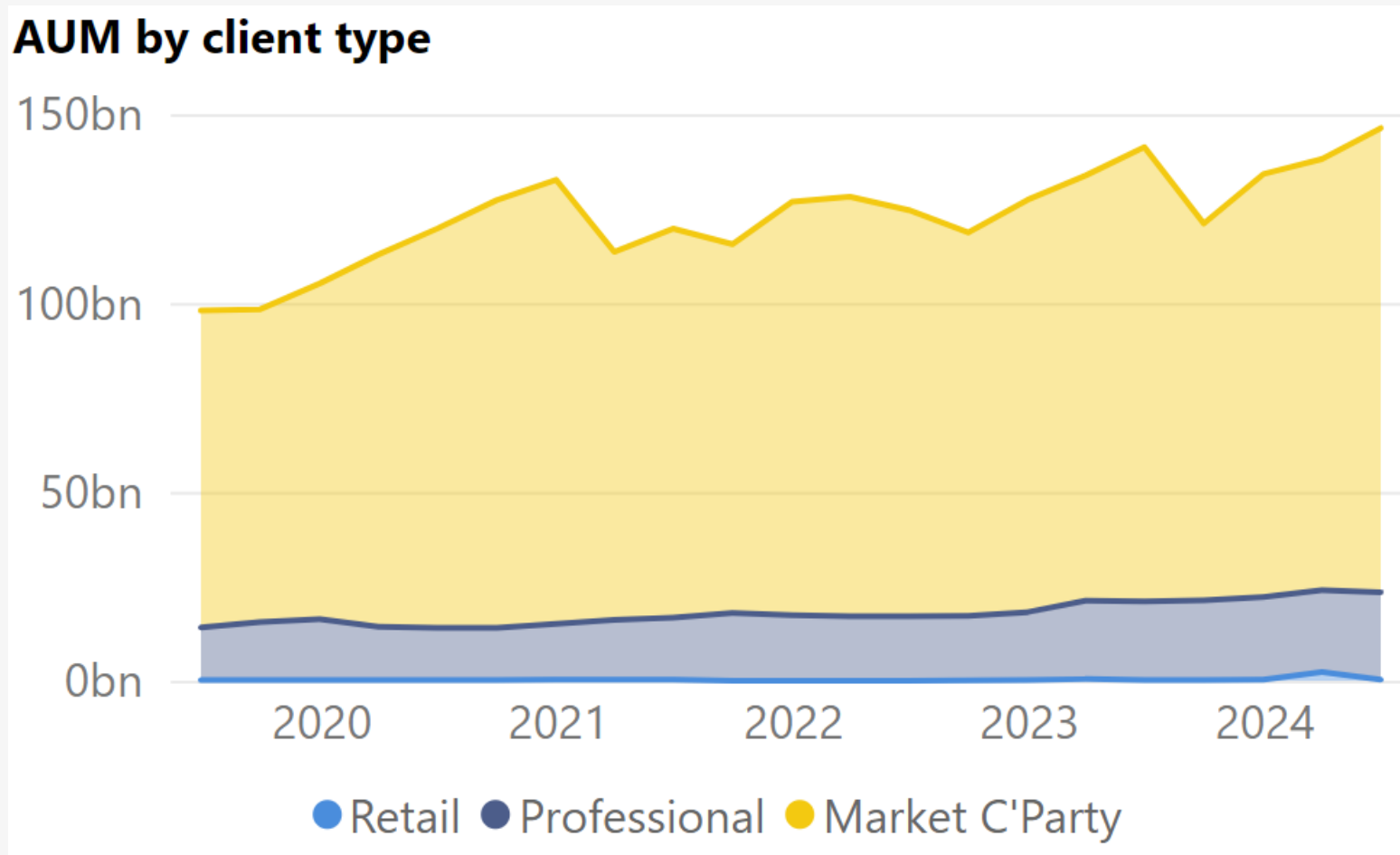
**78% of DFSA Firm
Population**

** Commonly referred to as our Ancillary Service Provider business models*

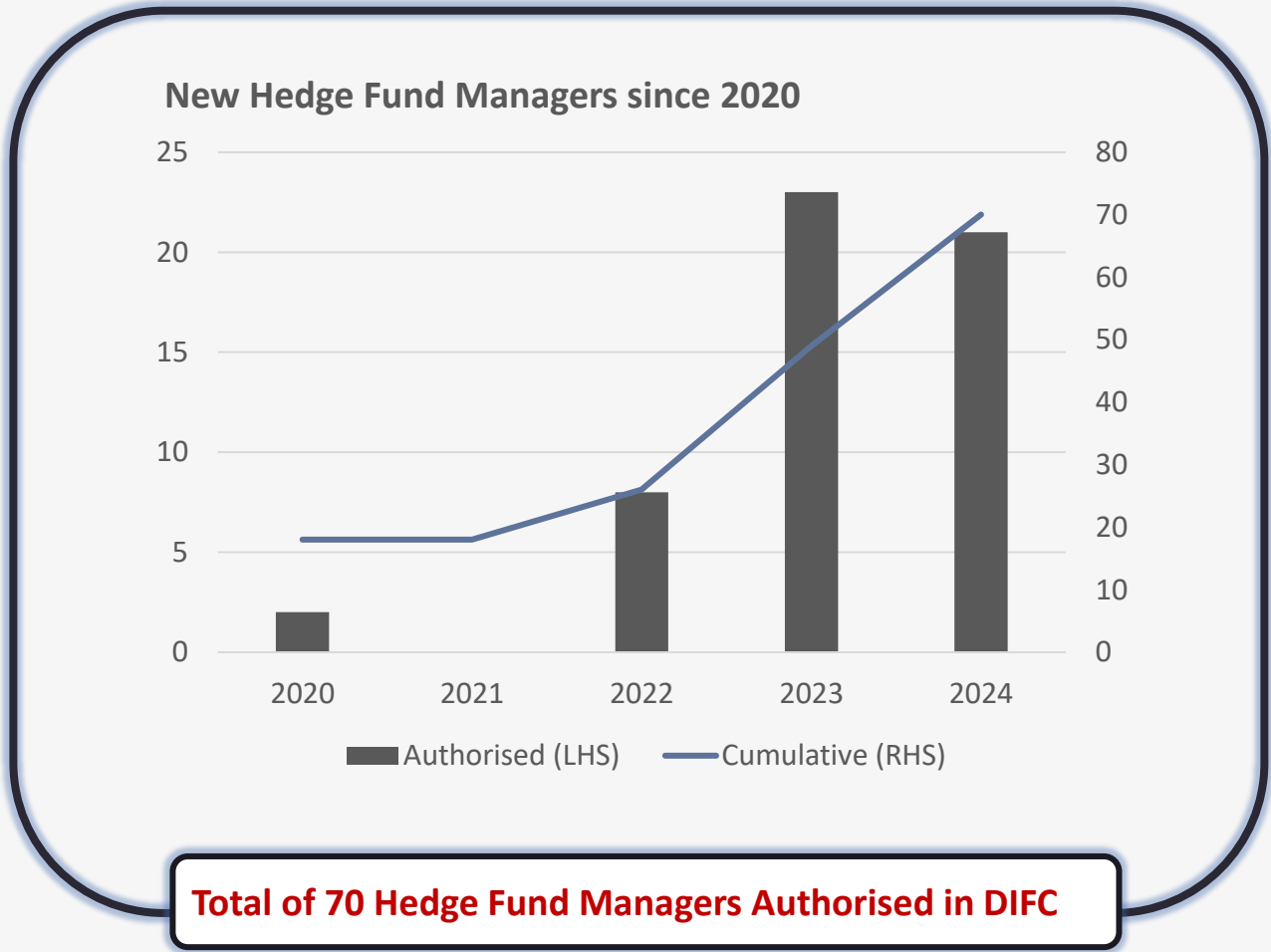
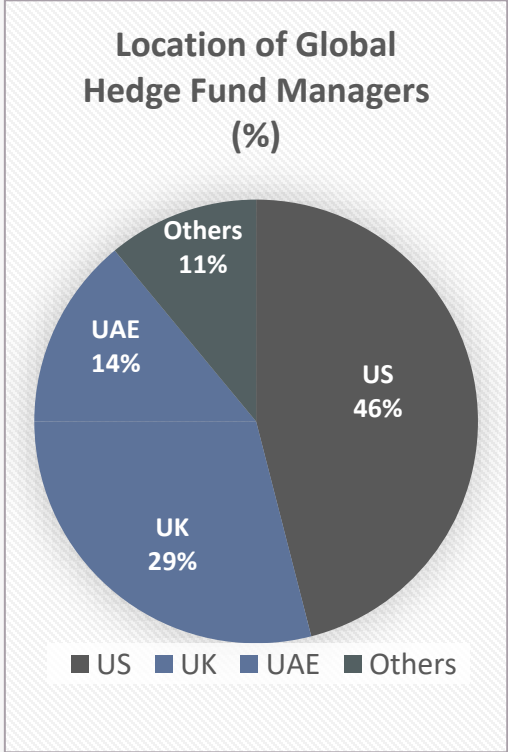
Growth in wealth management sector



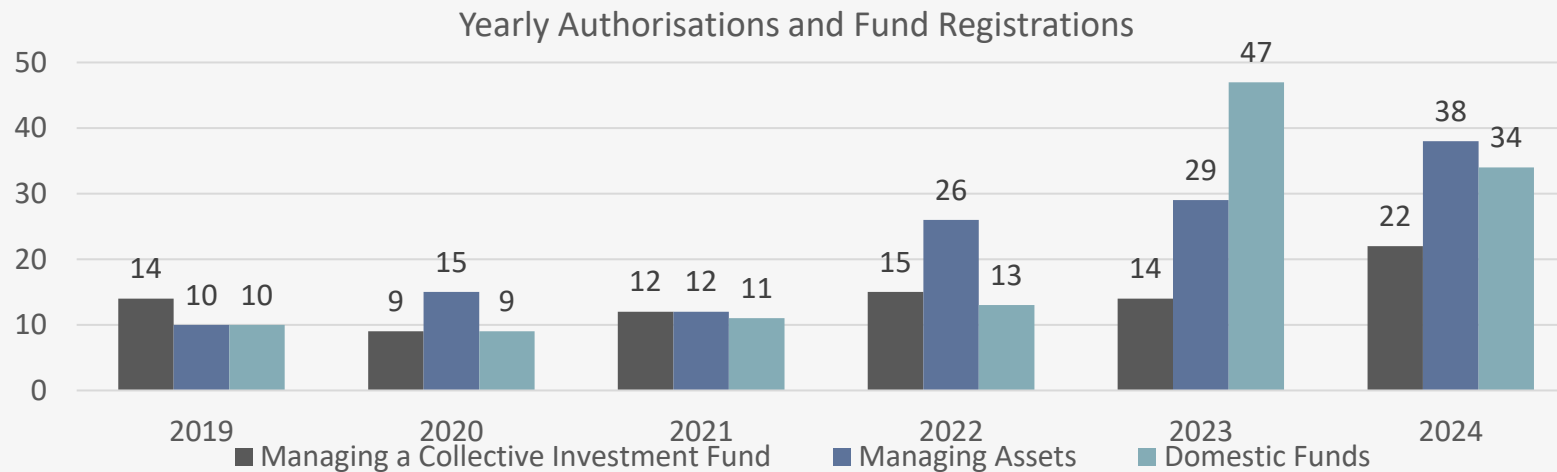
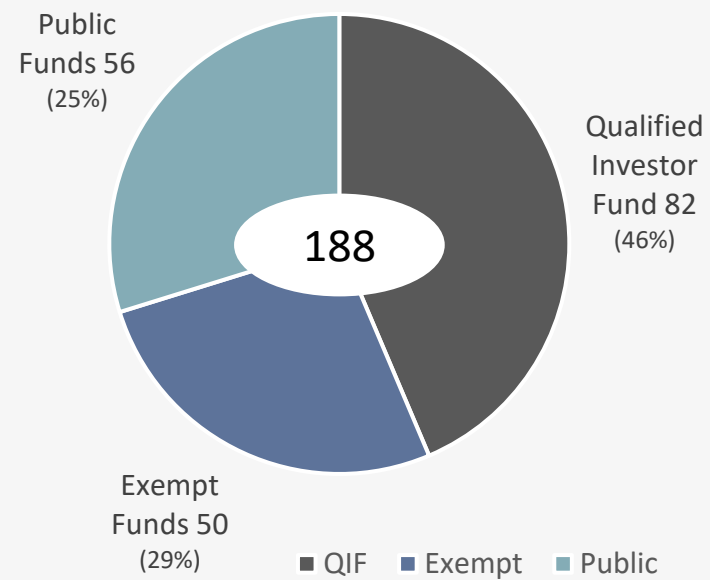
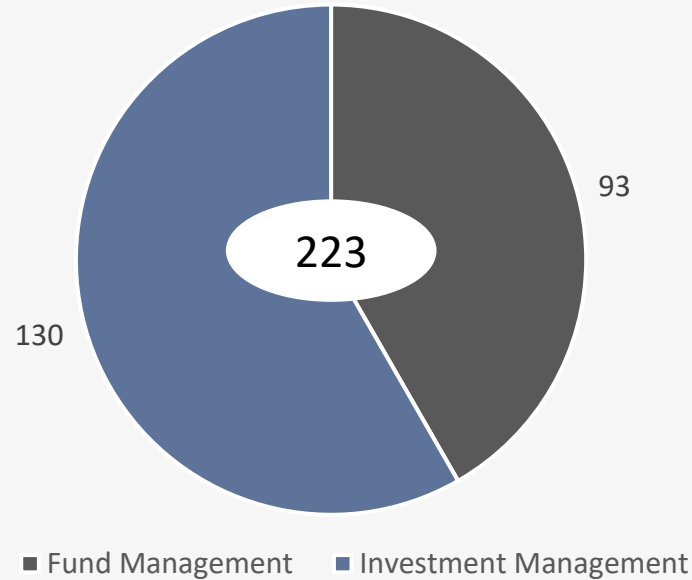
Wealth management sector: client types



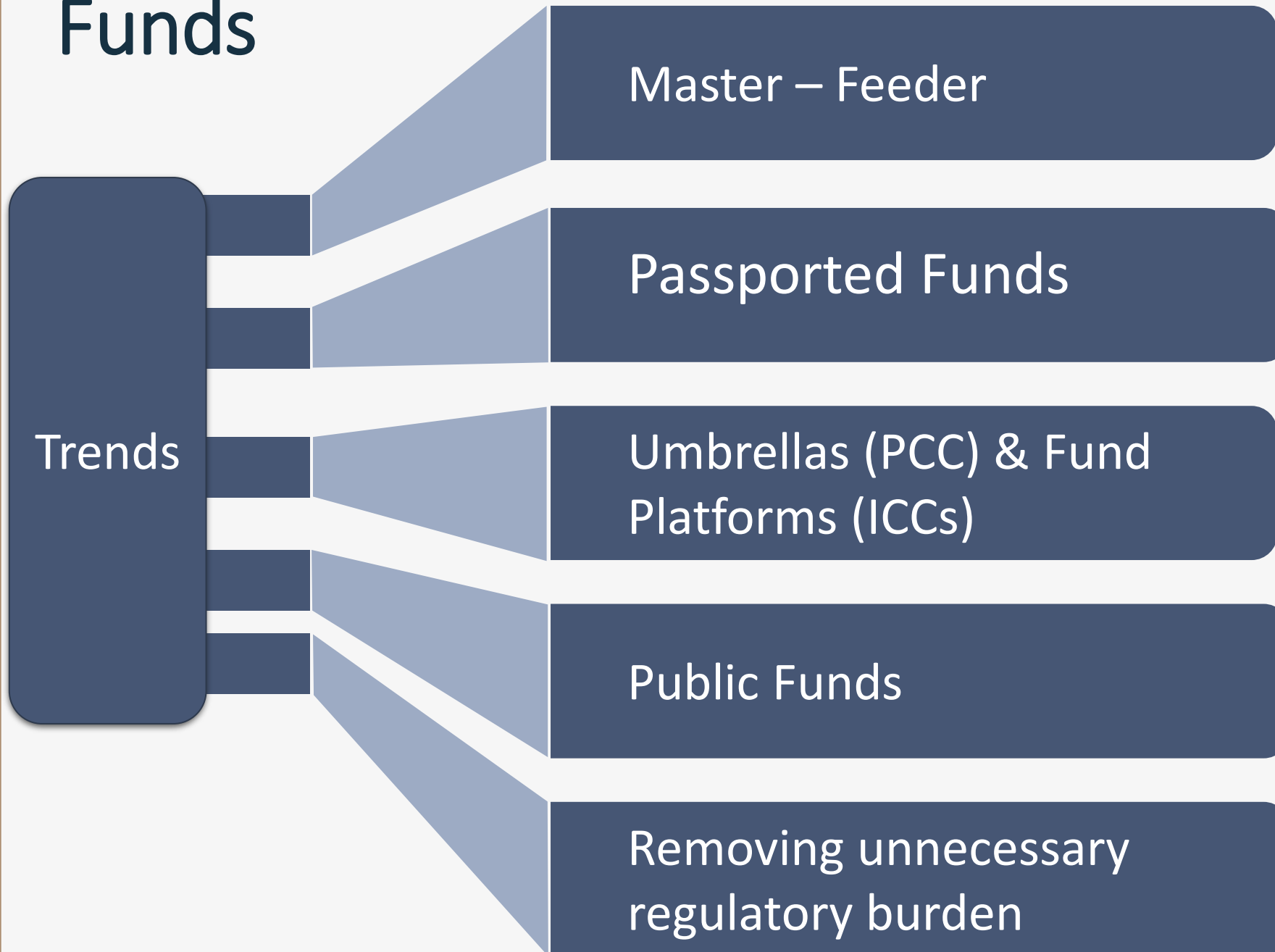
Growth in DIFC hedge fund managers



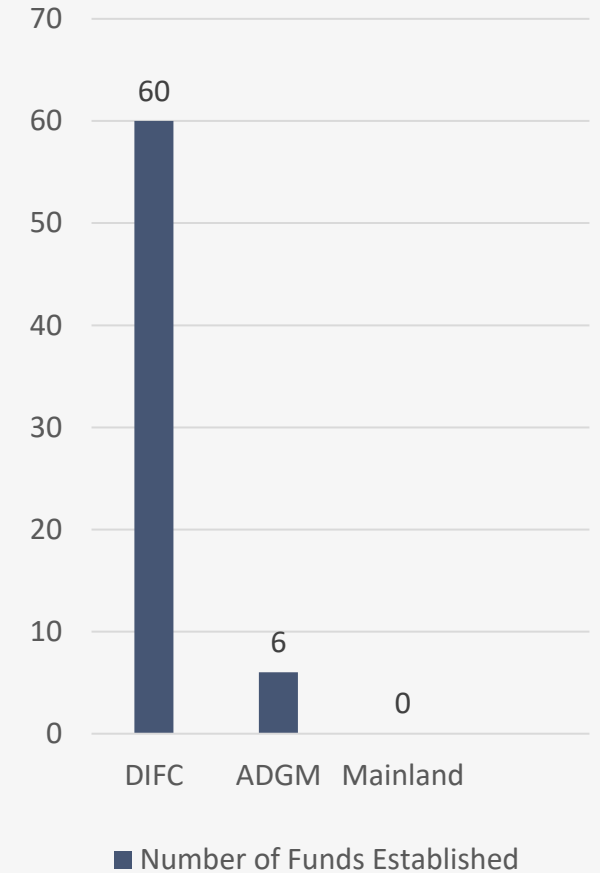
Asset management market landscape



Funds

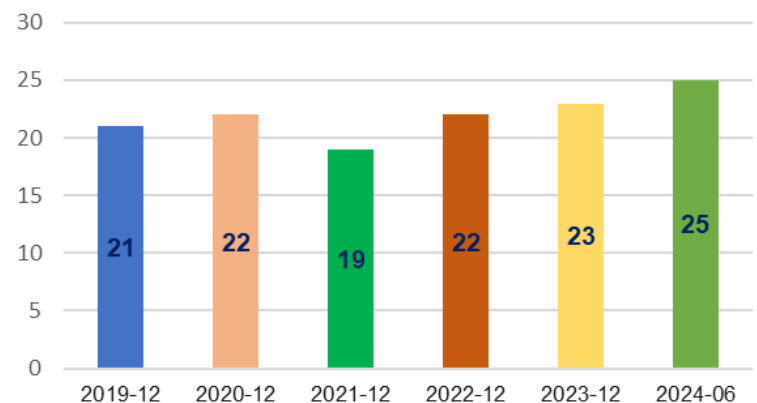


Passported Fund Domicile



Growth in private banking sector

Wealth management - Private Banking



25 Firms

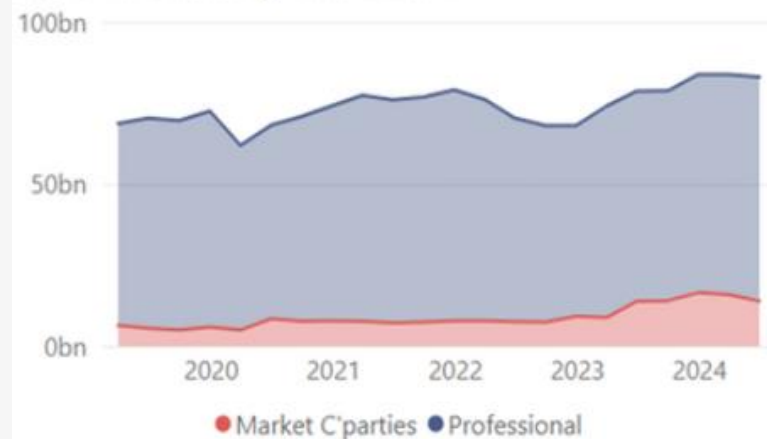


Steady growth in number of firms and pipeline remains strong.



Business line expansion

Assets under advisory - Private Banks



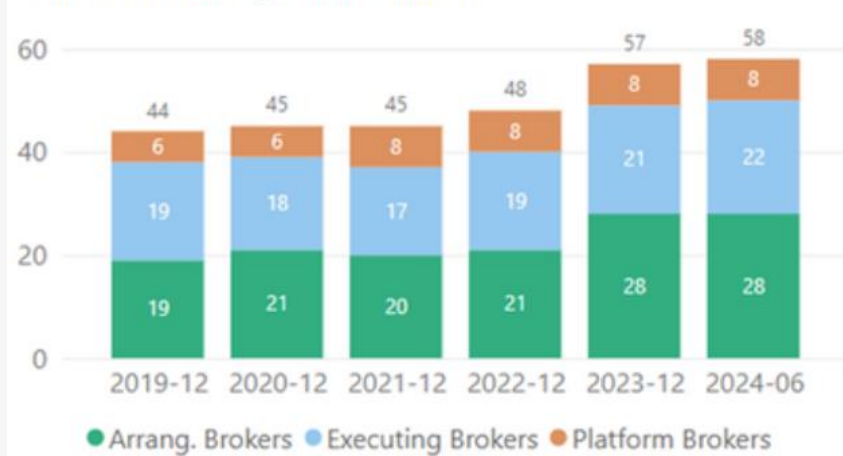
Over 9,000 clients



USD \$83bn of assets.

Growth in brokerage sector

Authorised Firms by Business Model



58 Firms

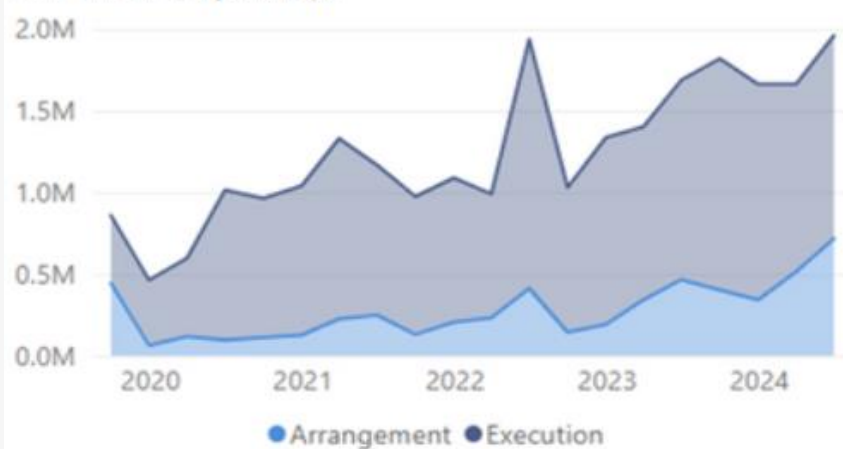


Steady growth in number of firms and pipeline remains strong.



Expanding footprints and operations

No. of Trades (quarterly)



c.3.5m trades arranged and executed on behalf of clients (H1 2024)



Trades arranged and executed averaged c.1.8m per quarter in 2024, up 9% from 2023

Thematic reviews



Disclosures

Focus Areas

- Marketing Materials
- Financial Promotions
- Disclosures

Key Findings

- Policies and Procedures
- Marketing Materials
- DIFC vs Group Entities



Outreach
28 November 2024



Complaints

Focus Areas

- Complaints Handling
- Good Practice and Areas for Improvement
- Outliers

Key Findings

- Policies and Procedures
- Complaint Recognition
- Governance



Outreach
28 November 2024



Whistleblowing

Focus Areas

- Whistleblowing Practices
- Whistleblowing Regime

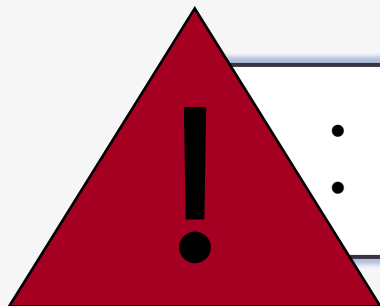
Key Findings

- Whistleblower Protection
- Policies and Protection
- Governance



Outreach
Q1 2025

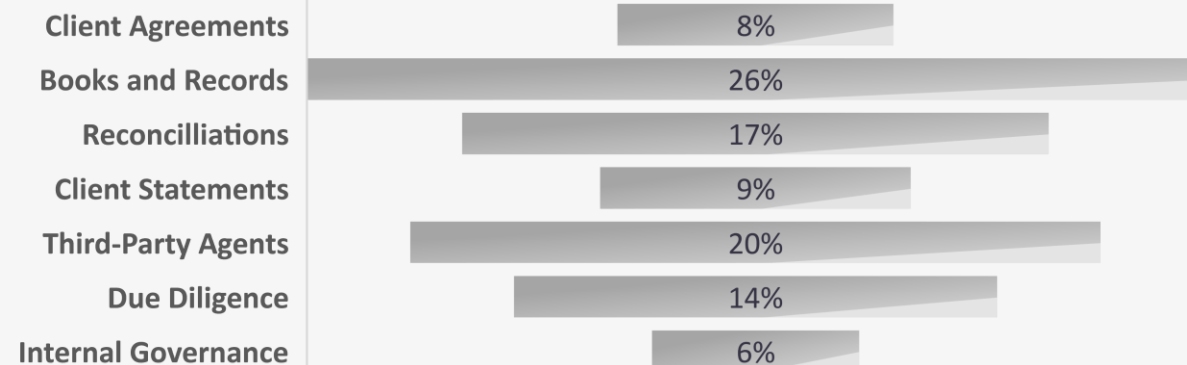
Client assets: annual review and CP160



- Client Asset Protection remains a **regulatory priority for the DFSA**.
- We have a **low risk tolerance** for the misappropriation or mismanagement of Client Assets.



- Annual review of Client Money and Safe Custody Auditor Reports
- Key issues and themes have fed into proposals in CP160



CP 160 Proposed changes aimed at:

- ensuring our regulatory framework is proportionate and risk based;
- addressing compliance issues identified through our supervision activities; and
- clarifying aspects of the Client Assets Regime to improve compliance going forward.

Closed on 20 October 2024 and we are now reviewing responses.



Employee Money Purchase Schemes



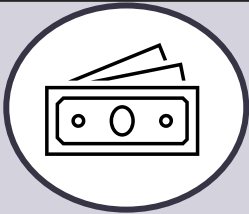
- New sector
- Focussed on outsourcing arrangements and resourcing
- Reviewing regulatory regime to ensure it remains fit for purpose.

Private Banks



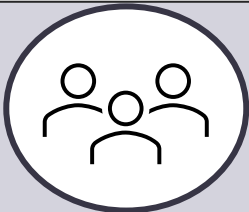
- Dear SEO Letter and outreach session in March 2024.
- Areas for Improvement: - Governance, compliance resourcing, suitability, client classification, outsourcing, handling of staff misconduct and AML

Brokerage



- Dear SEO Letter and outreach session in March 2024.
- Areas for Improvement: - Governance, compliance resourcing, remuneration, handling of staff misconduct, Suspicious Transaction Order Reports and AML

Investment Advisory



Focus Areas

- Conduct Risk
- Business Model and Strategy
- Operational Risk

Key Findings

- Policies and Procedures
- Governance
- Suitability

Fund Administration



Focus Areas

- Governance
- Systems and Controls
- Operational Risk

Key Findings

- Governance – delegation and outsourcing
- Systems and controls –Organise, monitor and control business activities

Stakeholder engagement

DFSA Outreach

CCO Working Group

Brokerage Outreach

Private Banks Outreach

Regulatory

Supervisory Colleges

Regulatory Engagement

SCA

ADGM

FCA

FINMA

CYSec

MAS

HK SFC

Industry

AIMA Roundtable Dubai

AIMA-APAC Forum, Hong Kong

DFSA-AIMA-AMAC Forum, Dubai

Middle East Wealth Xchange, Dubai

Industry Associations – AIMA, MFA, GCMA, MEIMA

Hedge Funds Managers Middle East Symposium (UK & Dubai)

DFSA-HK SFC Roundtables: Funds & AM Sector (HK & Dubai)

Next Steps & into 2025

