Dubai Financial Services Authority

THEMATIC REVIEW

Fund Management Self-Custody

DFSA.AE

SEPTEMBER 2025

Contents

Executive Summary

In January 2021, the Dubai Financial Services Authority (DFSA) introduced the need for Fund Managers (FM) responsible for Domestic Funds, including External Funds, to submit Periodic Fund Returns (PFR) data. In this PFR data report, FMs are required to provide the DFSA with essential funds data for the 1 January-30 June period (H1) by 31 July, and for the 1 July-31 December period (H2) by 31 January in the following year.

The PFR data show evidence of a burgeoning Domestic Funds market: between December 2023 and June 2024, the number of Domestic Funds increased by almost 20% to 153 Funds. FMs had made self-custody arrangements for 46 of those Funds, representing 30% of the population.

FMs that hold self-custody of Fund Property must have in place appropriate and effective policies and procedures to manage and mitigate the associated risks including, but not limited to, mismanagement and misappropriation of Fund Property. Given the market growth, number of self-custody arrangements and associated risks, we decided to conduct a Thematic Review.

A Dear SEO letter was issued on 6 December 2024 to all Authorised Firms (AFs), advising them of the Self-Custody Thematic Review (Review).

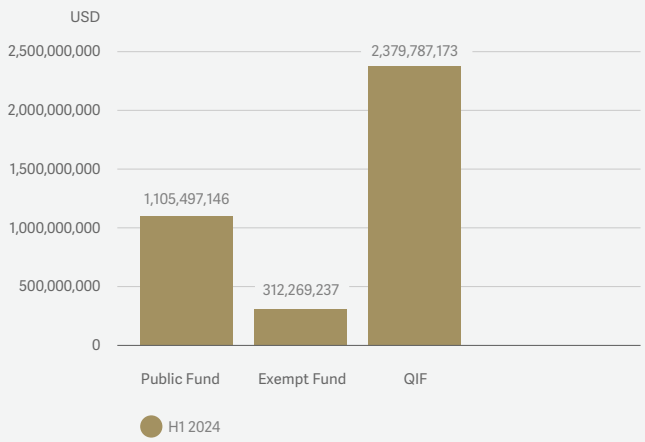
We examined the PFR data to identify the population and sample group of FMs within this Review's scope. We then carried out follow-up desk-based reviews and/or visits to FMs, to further assess self-custody arrangements. It was pleasing to observe that, in some cases, FMs of Exempt Funds and Qualified Investor Funds (QIF) went beyond the requirements set out in the Collective Investment Rules (CIR) module of the DFSA Rulebook. They adopted additional controls and processes applicable to Public Funds, to ensure proper custody arrangements for Fund Property.

The DFSA expects all FMs to consider the key themes and findings from this Review in the context of their specific business activities and obligations. During future engagements with the DFSA, FMs may be requested to demonstrate how they have done so.

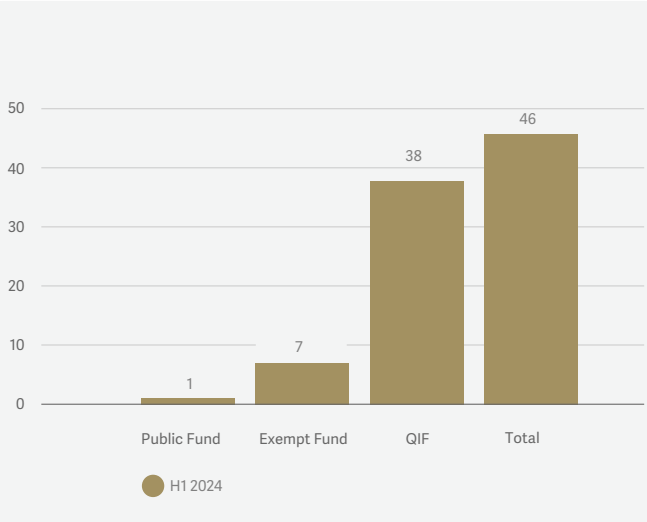
Landscape

The PFR data for H1 2024 identified 23 FMs that made self-custody arrangements for 46 Funds. Those Funds recorded USD 3.8 billion in Assets under Management (AuM), representing 45.5% of total Domestic Fund AuM in the DIFC.

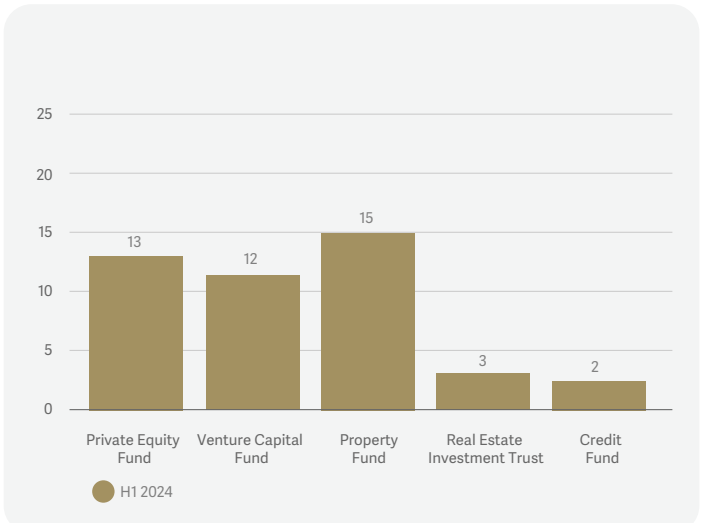
In the figure below, they are split by Fund type and AuM:



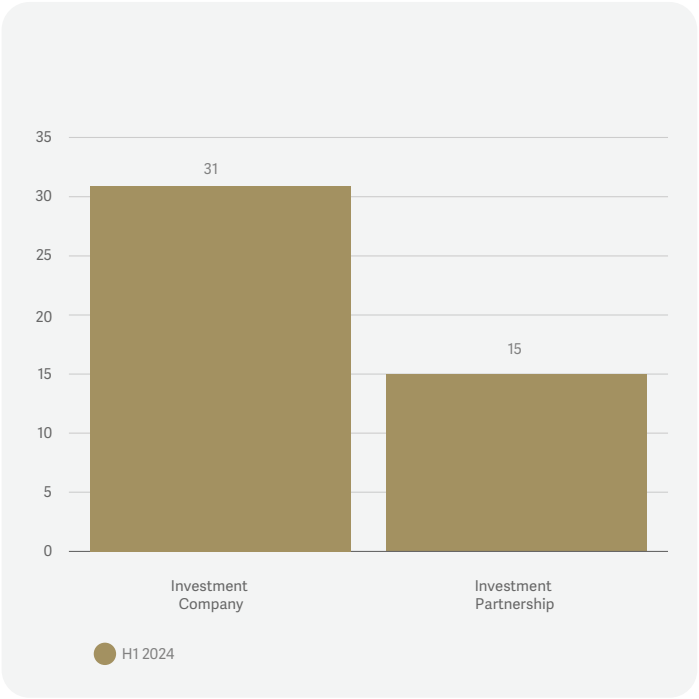
Of the 46 Funds, 83% were QIFs as shown in the figure below:

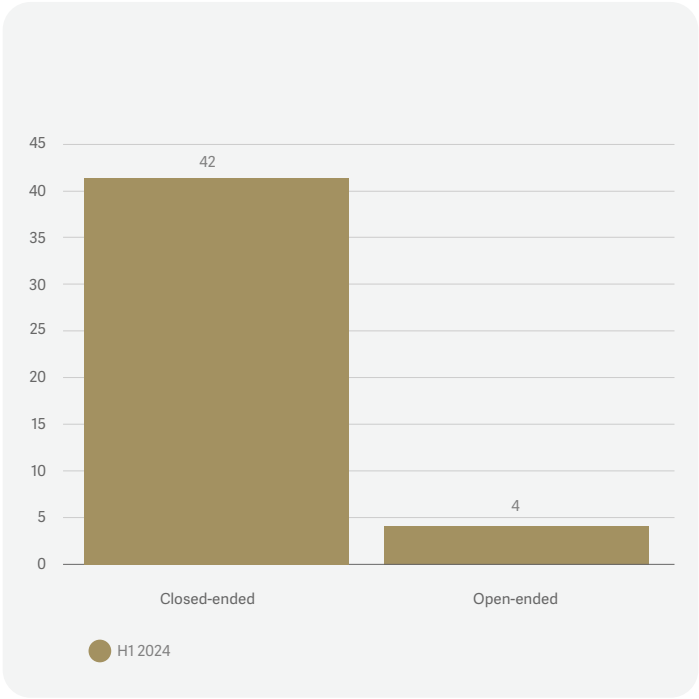


The Domestic Funds that made use of self-custody covered a range of specialist Fund classes, of which Property Funds were most common, as shown below:



In terms of legal and operating structures, most are established as closed-ended Investment Companies, as shown below:





Scope and Methodology

The Review aimed to:

- assess the overall effectiveness of the regime and the level of compliance of FMs that were in scope of the Review, including whether effective policies and procedures had been implemented in accordance with the DFSA's CIR module, the Collective Investment Law and other applicable rules in the General (GEN) module;
- identify good practice and areas for improvement to convey to FMs; and
- identify outliers and instances of material non-compliance for further action.

In line with our risk-based approach to supervision, and to avoid unnecessary regulatory burden on AFs, we decided to not issue a survey given the small size of the population (23 FMs and 46 Funds).

The Review was conducted in two phases:

Phase One

We leveraged the data collected from the PFR (H1 2024) to identify the sample. At a high level, the population was split into two groups: higher-risk firms and lower-risk firms. The main drivers for selection were:

- number of unitholders;
- amount of gross AuM;
- leverage/borrowing;
- Fund type; and
- operating structure.

FMs whose Funds had not yet launched were excluded. This reduced the in-scope population to 21 FMs and 41 Funds.

To understand the risks holistically, we selected from the higher-risk firms a sample of 10 FMs that included all types of Funds (Public, Exempt, and QIF) and operating structures (Open-ended and Closed-ended).

Phase Two

We conducted follow-up desk-based reviews and/or visits to further assess self-custody arrangements. A consistent approach was applied across all FMs to ensure appropriate comparisons and benchmarking.

Key Themes and Findings

The Review covered the following key themes and FMs were tested against applicable rules in the CIR based on their Fund type:

1. operational risk;
2. conflicts of interest risk;
3. transparency and disclosure risk; and
4. liquidity risk.

FMs within the scope of this Review comprised one Public Fund, seven Exempt Funds, and 33 QIFs. For Public Funds, detailed requirements for self-custody of Real Property are available under CIR Rule 13.4.2. Meanwhile, the broader requirements for QIFs are under CIR Rule 12A.3.1(3), and for Exempt Funds under CIR Rule 13.4.2A(b).

This Review tested whether Exempt Funds and QIFs were applying any of the additional requirements under CIR Rule 13.4.2. The table below lists excerpts from those requirements, and compares them against some examples of good practice that were identified:

Excerpts from CIR Rule 13.4.2 (Public Funds)	Examples of Good Practice among Exempt Funds / QIFs
"(2) The systems and controls referred to in (1) (b) must, as a minimum, ensure that:	
a) legal title to the Real Property is registered in the name of the Fund;	a) Some FMs had systems and controls in place to ensure that legal title to the Real Property was registered in the name of the Fund, and either had an operations manual for each Fund, or maintained a register that included ownership details.
b) the Fund Manager identifies, manages and monitors any conflicts of interest that may arise due to it acting as custodian of the Real Property;	b) Some FMs assessed actual and potential conflicts of interest that arose when they acted as Custodian of Fund Property. Such conflicts were discussed internally at a committee level, documented in the compliance manuals, and such conflicts were also disclosed to unitholders.
c) the Fund Manager clearly designates the employees who are responsible for safeguarding the ownership rights of the Fund over any Real Property including but not limited to: i. safekeeping title deeds and other legally relevant documents relating to the Real Property; and ii. ensuring that legal title to the Real Property is registered in the name of the Fund;	c) Some FMs designated specific individuals who had access to the safe where title deeds and other relevant documents relating to Real Property ownership are kept.
d) the employees referred to in (c) are not required to carry out duties and functions which may conflict with their duties and functions referred to in that paragraph."	d) Employees who had access to one set of the safe keys did not perform duties that would conflict with their safekeeping functions, e.g. such employees were not also working in the finance department.

Operational Risk

Overview

The DFSA expects FMs to have written policies and procedures detailing self-custody arrangements. This includes the need for adequate systems and controls to be in place to ensure that Fund Property is segregated and not available to creditors. Additionally, FMs must have safekeeping arrangements for Fund Property, including details of how, where, and by whom it can be accessed.

Areas for Improvement

This Review found that the majority of FMs did not have appropriate written policies and procedures in place covering self-custody. Furthermore, weaknesses were identified even at FMs that had written policies and procedures in place. Some observations are listed below:

- Policies and procedures did not include self-custody arrangements;
- Policies and procedures were not periodically reviewed and updated to reflect the current self-custody arrangements;
- One FM (rather than the Fund) was the shareholder of the special purpose vehicle (SPV) which owns all the underlying assets of the Fund; and
- One SPV's legal ownership documents were not held with the FM but with property managers.

Good Practice

This Review identified specific examples of good practice related to written policies and procedures for self-custody, including:

- Maintenance of an electronic custody register, which includes all entries related to the Real Properties owned by the Fund; and
- Establishment of an operations manual for each Fund, which includes a description of all custody arrangements applicable to that Fund.

Action Required

FMs must review the adequacy of their self-custody policies and procedures to ensure that they accurately reflect the FM's current self-custody arrangements, and are appropriate to the nature, scale, and complexity of their business activities, as well as their size and organisational structure.

Conflicts of Interest Risk

Overview

FMs are expected to have arrangements in place to ensure that employees responsible for custody are independent of those managing the Fund. Policies and procedures must cover how to deal with identified conflicts of interest in relation to self-custody arrangements, and how conflicts are to be prevented, managed, or disclosed, so that the interests of unitholders are not adversely affected.

Areas for Improvement

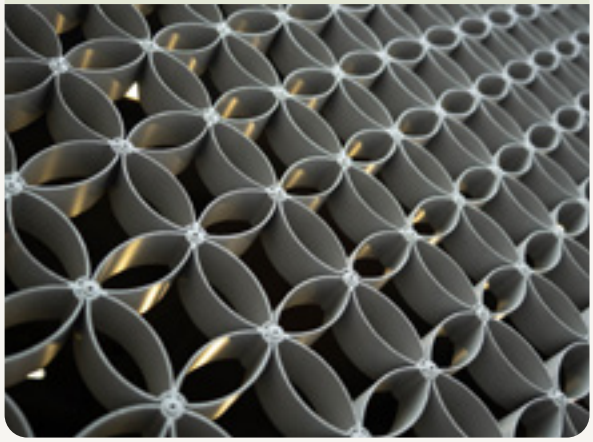
This Review identified some failings related to the recognition of conflicts of interest risks:

- Policies and procedures did not include conflicts of interest risks in relation to self-custody; and
- Proper disclosures in relation to conflicts of interest were not included in the Fund's Private Placement Memorandum (PPM)/Prospectus.

Good Practice

This Review identified specific examples of good practice related to written policies and procedures for self-custody, including:

- Maintenance of an electronic custody register, which includes all entries related to the Real Properties owned by the Fund; and
- Establishment of an operations manual for each Fund, which includes a description of all custody arrangements applicable to that Fund.



Action Required

FMs must review the adequacy of their self-custody policies and procedures to ensure that they accurately reflect the FM's current self-custody arrangements, and are appropriate to the nature, scale, and complexity of their business activities, as well as their size and organisational structure.

Transparency and Disclosure Risk

Overview

The DFSA expects FMs to make appropriate disclosures to unitholders in relation to self-custody arrangements. Such disclosures should be included in the Fund's PPM/Prospectus and in their periodic reports to unitholders.

Areas for Improvement

This Review identified that most FMs included appropriate disclosures in relation to self-custody. However, some FMs did not include appropriate disclosures in relation to current self-custody arrangements in the Fund's PPM/Prospectus. We found, in one instance, that a FM had not disclosed self-custody arrangements to unitholders in its periodic reports.

Good Practice

This Review did not identify FMs that went beyond the expected normal practice for handling transparency and disclosure risk in relation to their self-custody arrangements. FMs that did not have deficiencies or areas of improvement in relation to handling transparency and disclosure risk were deemed to be meeting expectations.

Action Required

FMs must ensure that appropriate disclosures in relation to self-custody arrangements are made to their unitholders.

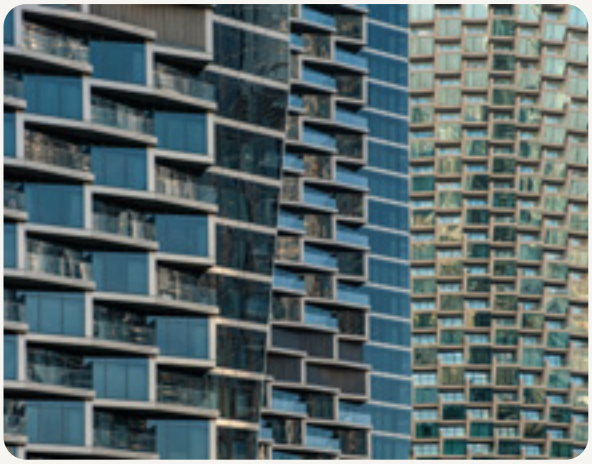
Liquidity Risk

Overview

FMs of Open-ended Domestic Funds must ensure that their Funds have sufficient liquidity to meet redemption requests, as stated in the Fund's constitution and most recent Prospectus, and as appropriate to the nature and risk profile of the relevant Funds. In the context of this Review, this requirement was only applicable to two FMs.

Areas for Improvement

One FM did not have adequate systems and controls in relation to liquidity risk management in Open-ended Funds, as required under CIR Rule 8.6A.1.



Good Practice

This Review did not identify examples of good practice. As mentioned above, Liquidity Risk was only applicable to two FMs that had Open-ended Domestic Funds, one of which was deemed to be meeting expectations.

Action Required

FMs of Open-ended Domestic Funds must ensure that they have appropriate systems and controls in place covering liquidity risk management, as required under CIR Rule 8.6A.1.

Risk Mitigation

Overview

The DFSA expects Compliance Officers to have adequate oversight over the FMs' self-custody arrangements through the Compliance Monitoring Programme (CMP), to ensure that they are in line with DFSA requirements. For Public Funds, the DFSA also expects the Oversight Committee to review self-custody arrangements. Firms should also consider oversight by internal audit, where applicable and based on the nature, scale, and complexity of the business.

Areas for Improvement

This Review identified the following failings in relation to oversight of self-custody arrangements:

- Some FMs did not include a review of their self-custody arrangements as part of the Firm's CMP;
- Compliance reports in relation to self-custody arrangements did not include sufficient details showing how such arrangements were assessed to be adequate; and
- None of the FMs considered subjecting their self-custody arrangements to internal audit reviews.

Good Practice

This review identified one FM that subjected its self-custody arrangements to reviews by two separate governance forums, with reports being made quarterly to the FM's board.

Action Required

FMs must review their approach on subjecting self-custody arrangements to appropriate oversight to ensure compliance with applicable DFSA rules and regulations.

Dubai Financial Services Authority

About the DFSA

The Dubai Financial Services Authority (DFSA) is the independent regulator of Financial Services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free zone in Dubai, UAE. The DFSA regulates and supervises Financial Services firms and markets in the DIFC. These include asset managers, banks, custody and trust service, commodities futures traders, fund managers, insurers and reinsurers, traders of securities, and fintech firms.

The DFSA supervises exchanges and trading platforms for both conduct and prudential purposes, overseeing an international securities exchange (Nasdaq Dubai) and an international commodities derivatives exchange (Gulf Mercantile Exchange).

The DFSA is also responsible for supervising and enforcing anti-money laundering and countering the financing of terrorism requirements applicable to regulated entities and Designated Non-Financial Businesses and Professions in the DIFC.

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