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# The DFSA Rulebook

General Module

**(GEN)**

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## 1 INTRODUCTION

### 1.1 Application

- 1.1.1** This module (GEN) applies to every Person to whom the Regulatory Law 2004 or Markets Law 2012 applies and to the same extent in relation to every such Person as that law, except to the extent that a provision of GEN provides for a narrower application.

#### Guidance

Pursuant to the application provisions in each chapter, only chapters 1 to 3 inclusive and sections 11.2, 11.3, 11.11, 11.12 and 11.13 of GEN apply to a Representative Office.

### 1.2 Overview of the module

#### Guidance

1. Chapter 2 prescribes, pursuant to Article 41(2) of the Regulatory Law 2004, the activities which constitute a Financial Service and, pursuant to Article 42(1) of the Regulatory Law 2004, the kind of Financial Services that may be carried on by Authorised Firms and Authorised Market Institutions. It also specifies various exclusions in relation to the 'by way of business' requirement and, where applicable, in relation to each Financial Service. Further, the appendices contain detailed definitions of what constitutes a Deposit, Investment, Collective Investment Fund and Contract of Insurance.
2. Chapter 3 sets out the requirements for a Person making or intending to make a Financial Promotion in or from the DIFC.
3. Chapter 4 sets out the Principles for Authorised Firms and Authorised Individuals.
4. Chapter 5 specifies the requirements upon senior management to implement effective systems and controls. There are also requirements upon the Authorised Firm to apportion material responsibility among its senior management.
5. Chapter 6 contains mainly guidance in respect of: interpretation of the Rulebook, emergency procedures, disclosure, the location of offices, close links, complaints against the DFSA and the public register.
6. Chapter 7 specifies DFSA's authorisation requirements for any applicant intending to become an Authorised Firm or Authorised Individual.
7. Chapter 8 specifies, in relation to Authorised Persons, the auditing and accounting requirements which deal with such matters as the appointment and termination of auditors, accounts and regulatory returns and the functions of an auditor. There are also requirements for auditors to register with the DFSA.
8. Chapter 9 prescribes the manner in which an Authorised Firm must handle Complaints made against it by Retail Clients or Professional Clients.
9. Chapter 10 contains two sets of Transitional Rules.
  - a. Rules 10.1.2 and sections 10.2, 10.3, 10.4 and 10.5 impact on various modules of the Rulebook, particularly COB and CIR. These Rules enable Authorised Firms to make a smooth transition to the Current Regime that came into force on 1 July 2008 under Rulemaking Instrument No 56, following the DFSA's "Key Policy

- Review” outlined in Consultation Paper 52. They also provide for the continued application of some of the provisions of the Previous Regime under the Current Regime; and
- b. Section 10.6 contains Transitional Rules that allow, with effect from 4 January 2009:
    - i. an Authorised Person to carry on a Financial Service in respect of a Designated Investment as if that Designated Investment were a Structured Product; and
    - ii. a Designated Investment included in an Official List of Securities before that date to continue to be a listed Structured Product,
10. Chapter 11 specifies the DFSA’s supervisory requirements for any Authorised Person being regulated by the DFSA.

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## **2 FINANCIAL SERVICES**

### **2.1 Application**

**2.1.1** This chapter applies to every Person to whom the Regulatory Law 2004 applies, and to the same extent in relation to every such Person as that law.

### **2.2 Financial Service activities**

**2.2.1** An activity constitutes a Financial Service under the Regulatory Law 2004 and these Rules where:

- (a) it is an activity specified in Rule 2.2.2; and
- (b) such activity is carried on by way of business in the manner described in section 2.3.

**2.2.2** The following activities are specified for the purposes of Rule 2.2.1:

- (a) Accepting Deposits;
- (b) Providing Credit;
- (c) Providing Money Services;
- (d) Dealing in Investments as Principal;
- (e) Dealing in Investments as Agent;
- (f) Arranging Credit or Deals in Investments;
- (g) Managing Assets;
- (h) Advising on Financial Products or Credit;
- (i) Managing a Collective Investment Fund;
- (j) Providing Custody;
- (k) Arranging Custody;
- (l) Effecting Contracts of Insurance;
- (m) Carrying Out Contracts of Insurance;
- (n) Operating an Exchange;
- (o) Operating a Clearing House;
- (p) Insurance Intermediation;
- (q) Insurance Management;

- (r) Managing a Profit Sharing Investment Account;
- (s) Operating an Alternative Trading System;
- (t) Providing Trust Services;
- (u) Providing Fund Administration;
- (v) Acting as the Trustee of a Fund;
- (w) Operating a Representative Office; and
- (x) Operating a Credit Rating Agency.

**Guidance**

Note that the ambit of these activities in Rule 2.2.2 may be restricted under COB, AMI or REP and may be fettered by the continuing operation of the Federal Law.

**2.2.3** Each activity specified in Rule 2.2.2:

- (a) is to be construed in the manner provided under these Rules; and
- (b) is subject to exclusions under these Rules which may apply to such an activity.

**Permitted Financial Services for Authorised Firms**

**2.2.4** Pursuant to Article 42(1)(a) of the Regulatory Law 2004 an Authorised Firm, subject to the Rules, may carry on any one or more Financial Services other than Providing Money Services.

**2.2.5** The Financial Services of Effecting Contracts of Insurance and Carrying Out Contracts of Insurance may be carried on only by an Authorised Firm which by virtue of its Licence is permitted to carry on such Financial Services and no other Financial Services.

**2.2.6** The Financial Service of Managing a Profit Sharing Investment Account may be carried on only by an Authorised Firm which by virtue of an appropriate endorsement on its Licence is permitted to conduct Islamic Financial Business.

**2.2.7** The Financial Service of Managing a Collective Investment Fund may be carried on in respect of an Islamic Fund only by an Operator which by virtue of an appropriate endorsement on its Licence is permitted to conduct Islamic Financial Business.

**2.2.8** A Financial Service may be carried on with or for a Retail Client only by an Authorised Firm which is permitted to do so by endorsement on its Licence.

**2.2.9** An Authorised Firm which is licenced to carry on the Financial Service of Operating a Representative Office may not be licenced to carry on any other Financial Service.



**2.2.10** An Authorised Firm (other than a Representative Office) may carry on an activity of the kind described in Rule 2.26.1 that constitutes marketing without the need for any additional authorisation to do so.

#### **Permitted Financial Services for Authorised Market Institutions**

**2.2.11** Pursuant to Article 42(1)(b) of the Regulatory Law 2004 and subject to Rule 2.2.12, an Authorised Market Institution may carry on any one or more of the following Financial Services:

- (a) Operating an Exchange;
- (b) Operating a Clearing House; or
- (c) Operating an Alternative Trading System to the extent that such activities constitute operating a Multilateral Trading Facility as defined in Rule 2.22.1(1)(a).

**2.2.12** The Financial Service of Operating an Alternative Trading System, to the extent that such activities constitute operating a Multilateral Trading Facility, may be carried on by an Authorised Market Institution which is permitted to do so by an endorsement on its Licence.

#### **Other permitted activities**

- 2.2.13** (1) The activity of maintaining a Trade Repository may be carried on by an Authorised Person which is permitted to do so by an endorsement on its Licence.
- (2) In (1), a Trade Repository is a centralised registry that maintains an electronic database containing records of transactions in Investments and over-the-counter derivatives.

#### **Guidance**

1. Maintaining a Trade Repository is not a separately licensed Financial Service, but may be carried on by an Authorised Person which has on its Licence an endorsement permitting it to do so. An Authorised Person maintaining a Trade Repository is subject to some specific requirements relating to that activity, which are set out in App 5.
2. The functions of a Trade Repository promote increased transparency and integrity of information, particularly for centrally clearing over-the-counter derivatives. Currently there are no transaction reporting requirements in the DIFC which require reporting to Trade Repositories.
3. An Authorised Person does not carry on the activities of a Trade Repository to the extent that it maintains records of transactions pursuant to the record keeping requirements applicable to that firm (such as those relating to transactions carried out on behalf of its Clients by an Authorised Firm, or transactions carried out on the facilities of an Authorised Market Institution).

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## 2.3 By way of business

**2.3.1** Subject to Rules 2.3.2 and 2.3.3, for the purpose of these Rules a Person carries on an activity by way of business if the Person:

- (a) engages in the activity in a manner which in itself constitutes the carrying on of a business;
- (b) holds himself out as willing and able to engage in that activity; or
- (c) regularly solicits other Persons to engage with him in transactions constituting that activity.

### Exclusions

**2.3.2** (1) Subject to Rule 2.3.5, a Person does not carry on an activity specified under paragraphs (a), (b), (c), (d), (e), (f), (g), (h), (j), (k), (p), (q) and (r) of Rule 2.2.2 by way of business if:

- (a) the Person enters into transactions solely as a nominee for another Person and is bound to and does act on that other Person's instructions;
- (b) the Person is a Body Corporate and carries on that activity solely as principal with or for other Bodies Corporate:
  - (i) which are within the same Group as that Person; or
  - (ii) which are or propose to become participators in a joint enterprise and the transaction is entered into for the purposes of or in connection with that enterprise;

and for the purposes of the activities specified in paragraphs (g), (j), (k) and (r) of Rule 2.2.2 the assets in question belong to a Body Corporate falling within (i) or (ii); or

- (c) the Person carries on the activity solely for the purposes of or in connection with the sale of goods or the supply of services to a customer of the Person or a member of the same Group, provided that:
  - (i) the supplier's main business is to sell goods or supply services and not to carry on any Financial Service; and
  - (ii) the customer is not an individual;

and for the purposes of the activities specified in paragraphs (g), (j), (k) and (r) of Rule 2.2.2 the assets in question belong to that customer or member.

(2) A Person who is a Body Corporate does not carry on the activity specified under paragraph (d) or (e) of Rule 2.2.2 by way of business, if:

- (a) the Person carries on such activities as a member of an Authorised Market Institution or Recognised Body;
- (b) the Person carries on such activities for its own account or for another Body Corporate which is in the same Group as the Person, provided that any such member of the Group for which the Person acts is a wholly-owned Subsidiary of a Holding Company within the Group or is the Holding Company itself;
- (c) the Person restricts such activities to transactions involving or relating only to Commodity Derivatives on that Authorised Market Institution or Recognised Body;
- (d) the main business of the Person is dealing in relation to Commodity Derivatives; and
- (e) the Person is not part of a Group whose main business is the provision of financial services.

**2.3.3** A Person does not carry on an activity specified under paragraphs (d), (e), (f) or (h) of Rule 2.2.2 by way of business if the activity is carried on solely for the purposes of or in connection with the acquisition or disposal of Shares in a Body Corporate, other than an Investment Company or Investment Partnership, provided that:

- (a) such Shares carry at least 50% of the voting rights or the acquisition will take an existing holding to at least 50%; or
- (b) the object of the transaction may reasonably be regarded as being the acquisition of day to day control of the Body Corporate; and
- (c) he is to enter as principal into the transaction.

**2.3.4** (1) A Person who is a Trustee does not carry on an activity specified under paragraphs (d), (g), and (j) of Rule 2.2.2 by way of business in circumstances where he is acting as a trustee.

- (2) A Person who is an individual does not carry on an activity specified under paragraph (t) by way of business where he is acting as trustee, enforcer or protector or where he is arranging for a Person to act as trustee, in respect of less than three (3) trusts.

**2.3.5** (1) A Person does not carry on an activity specified under paragraphs (d), (e), (f), (g), (h), (i), (j), (k), (p), (t), (u) and (v) of Rule 2.2.2 by way of business if:

- (a) that Person is the holder of a licence under the SFO Regulations to establish a Single Family Office in the DIFC; and
  - (b) the activity is carried on exclusively for the purposes of, and only in so far as it is, carrying out its duties as a Single Family Office.
- (2) A Private Trust Company or Family Fiduciary Structure does not carry on an activity specified under paragraph (t) of Rule 2.2.2 by way of business if it:

- (a) carries on that activity exclusively for the purposes of, and only in so far as it is, providing services to a Single Family; and
- (b) does not solicit trust business from, or provide trust services to, any Person outside the structure of the Single Family Office and outside the Single Family.

## **2.4 Accepting deposits**

**2.4.1** In Rule 2.2.2, Accepting Deposits means accepting Deposits where:

- (a) money received by way of Deposit is lent to others; or
- (b) any other activity of the Person accepting the Deposit is financed, wholly or to a material extent, out of the capital of or returns on any money received by way of Deposit.

## **2.5 Providing credit**

**2.5.1** In Rule 2.2.2, Providing Credit means providing a Credit Facility to a Person in his capacity as a borrower or potential borrower.

### **Exclusions**

**2.5.2** A Person who is an Authorised Firm does not Provide Credit where the provision of the Credit Facility is incidental to or in connection with the trading of Investments, or conducting Insurance Business.

### **Guidance**

1. Where an Authorised Firm is providing brokerage services pursuant to its Financial Service of Dealing in Investments as Agent, it may in the ordinary course of that business also be necessary to provide margin lending facilities to its Clients. In doing so the Authorised Firm will not be considered to be Providing Credit to its Client.
2. Where an Authorised Firm is Effecting Contracts of Insurance or Carrying Out Contracts of Insurance, it may in the ordinary course of that Insurance Business be necessary to provide an instalment contract to a Client with respect to the payment of an insurance premium. In doing so the Authorised Firm will not be considered to be Providing Credit to its Client.

## **2.6 Providing money services**

- 2.6.1** (1) In Rule 2.2.2, Providing Money Services means providing currency exchange or money transmission.
- (2) In (1) 'money transmission' means:
- (a) selling or issuing payment instruments;
  - (b) selling or issuing stored value; or

- 
- (c) receiving money or monetary value for transmission, including electronic transmission, to a location within or outside the DIFC.

### **Exclusions**

- 2.6.2** A Person who is an Authorised Firm does not Provide Money Services if it does so in relation to the carrying on of another Financial Service where Providing Money Services is in connection with and a necessary part of that other Financial Service.

## **2.7 Dealing in investments as principal**

- 2.7.1** In Rule 2.2.2, Dealing in Investments as Principal means buying, selling, subscribing for or underwriting any Investment as principal.

### **Exclusions**

- 2.7.2** A Person does not Deal in Investments as Principal merely by accepting an instrument, creating or acknowledging indebtedness in respect of any loan, credit, guarantee or other similar financial accommodation which that person has made or provided.
- 2.7.3** A Person does not Deal in Investments as Principal by issuing or redeeming Securities issued by that person.
- 2.7.4** A Person who is not an Authorised Firm or an Authorised Market Institution does not Deal in Investments as Principal in relation to an Investment by entering into a transaction with or through an Authorised Firm or a Regulated Financial Institution.
- 2.7.5** A Person who is an Authorised Firm does not Deal in Investments as Principal if in the course of managing the assets of a Private Equity Fund:
  - (a) the Person makes an initial subscription for Units of that Fund; and
  - (b) the Units are held by that Person for a period of more than 12 months.

## **2.8 Dealing in investments as agent**

- 2.8.1** In Rule 2.2.2, Dealing in Investments as Agent means buying, selling, subscribing for or underwriting any Investment as agent.

### **Exclusions**

- 2.8.2** A Person does not Deal in Investments as Agent if the activity:
  - (a) is carried on in the course of Providing Legal Services or Providing Accountancy Services which does not otherwise consist of the carrying on of Financial Services;

- (b) may reasonably be regarded as a necessary part of any other services provided in the course of that Providing Legal Services or Providing Accountancy Services; and
- (c) is not remunerated separately from the other services.

**2.8.3** A Person does not Deal in Investments as Agent if that Person:

- (a) is merely receiving and transmitting a Client order in respect of an Investment; and
- (b) does not execute the Client order for and on behalf of the Client or otherwise commit the Client to the transaction relating to the relevant Investment.

## **2.9 Arranging credit or deals in investments**

**2.9.1** (1) In Rule 2.2.2 Arranging Credit or Deals in Investments means:

- (a) making arrangements with a view to another Person, whether as principal or agent, buying, selling, subscribing for or underwriting an Investment; or
- (b) making arrangements for another Person, whether as principal or agent, to borrow money by way of a Credit Facility.

(2) The arrangements in (1) include:

- (a) arrangements which do not bring about the transaction; and
- (b) arrangements comprising or involving the receipt and transmission of Client orders in relation to Investments.

(3) The arrangements in (1) do not include:

- (a) arrangements which amount to Operating an Alternative Trading System; or
- (b) arrangements of the kind described in Rule 2.26.1 that constitute marketing.

### **Guidance**

In regard to arrangements under Rule 2.9.1(3)(b), pursuant to Rule 2.2.10, an Authorised Firm (other than a Representative Office) may carry on an activity of the kind described in Rule 2.26.1 that constitutes marketing without the need for any additional authorisation to do so.

### **Exclusions**

**2.9.2** There are excluded from Rule 2.9.1 any arrangements for a transaction into which the Person making the arrangements enters or is to enter whether as principal or agent for some other Person.

- 2.9.3** A Person does not Arrange Credit or Deals in Investments merely by providing means by which one party to a transaction is able to communicate with other such parties.
- 2.9.4** A Person does not Arrange Credit or Deals in Investments by making arrangements under which another Person accepts or is to accept an instrument creating or acknowledging indebtedness in respect of any loan, credit, guarantee or other similar financial accommodation which he or his principal has made or provided.
- 2.9.5** A Person does not Arrange Credit or Deals in Investments merely by making arrangements having as their sole purpose the provision of finance to enable a Person to buy, sell, subscribe for or underwrite Investments.
- 2.9.6** A Person does not Arrange Credit or Deals in Investments by making arrangements for the issue or redemption of Securities issued by it.
- 2.9.7** A Person does not Arrange Credit or Deals in Investments if the activity:
- (a) is carried on in the course of Providing Legal Services or Providing Accountancy Services, which does not otherwise consist of the carrying on of Financial Services;
  - (b) may reasonably be regarded as a necessary part of any other services provided in the course of Providing Legal Services or Providing Accountancy Services; and
  - (c) is not remunerated separately from the other services.

## **2.10 Managing assets**

- 2.10.1** In Rule 2.2.2, Managing Assets means managing on a discretionary basis assets belonging to another Person if the assets include any Investment or rights under a contract of Long-Term Insurance, not being a contract of reinsurance.

### **Exclusions**

- 2.10.2** A Person who is not an Authorised Firm or an Authorised Market Institution does not Manage Assets if:
- (a) he is a Person formally appointed in writing by the owner of the assets to manage the assets in question; and
  - (b) all day-to-day decisions relating to the Investments which are included in those assets are taken by an Authorised Firm or a Regulated Financial Institution.

### **Guidance**

A Person does not become a Fund Manager of a Fund merely by being appointed by a Fund Manager of a Fund to provide the Financial Service of Managing Assets to the Fund. This is because the Fund Manager remains legally accountable to the Unitholders of the Fund for the proper management of the Fund in accordance with its Constitution and Prospectus.

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## 2.11 Advising on financial products or credit

- 2.11.1** (1) In Rule 2.2.2, Advising on Financial Products or Credit means giving advice to a Person:
- (a) in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor on the merits of his buying, selling, holding, subscribing for or underwriting a particular financial product (whether as principal or agent); or
  - (b) in his capacity as a borrower or potential borrower or as agent for a borrower or potential borrower on the merits of his entering into a particular Credit Facility.
- (2) Advice in (1)(a) and (b) includes a statement, opinion or report:
- (a) where the intention is to influence a Person, in making a decision, to select a particular financial product or an interest in a particular financial product or to enter into a particular Credit Facility; or
  - (b) which could reasonably be regarded as being intended to have such an influence.
- (3) For the purposes of this Rule and Rule 2.11.2, a “financial product” is an Investment, Deposit, Profit Sharing Investment Account or rights under a contract of Long-Term Insurance, that is not a contract of reinsurance.

### Exclusions

- 2.11.2** A Person does not Advise on Financial Products or Credit by giving advice in any newspaper, journal, magazine, broadcast service or similar service in any medium if the principal purpose of the publication or service, taken as a whole, is neither:
- (a) that of giving advice of the kind mentioned in Rule 2.11.1; nor
  - (b) that of leading or enabling Persons:
    - (i) to buy, sell, subscribe for or underwrite a particular financial product; or
    - (ii) to enter into a particular Credit Facility.
- 2.11.3** A Person does not Advise on Financial Products or Credit if the activity:
- (a) is carried on in the course of Providing Legal Services or Providing Accountancy Services, which does not otherwise consist of the carrying on of Financial Services;
  - (b) may reasonably be regarded as a necessary part of any other services provided in the course of Providing Legal Services or Providing Accountancy Services; and



- (c) is not remunerated separately from the other services.

## 2.12 Managing a collective investment fund

- 2.12.1** (1) In Rule 2.2.2, Managing a Collective Investment Fund means:
- (a) being legally accountable to the Unitholders in the Fund for the management of the property held for or within a Fund under the Fund's Constitution; and
  - (b) establishing, managing or otherwise operating or winding up a Collective Investment Fund; and
- (2) To the extent that any activity under (1) constitutes Managing Assets, Providing Fund Administration, Dealing as Agent, Dealing as Principal, Arranging Credit or Deals in Investments, or Providing Custody, such a Financial Service is taken to be incorporated within Managing a Collective Investment Fund.
- (3) The Person referred to in (1) is a Fund Manager.

### Exclusions

- 2.12.2** Pursuant to Article 20(3) of the Collective Investment Law 2010, a Person is hereby prescribed by the DFSA as not Managing a Collective Investment Fund merely because that Person:
- (a) is acting as an agent, employee or delegate of the Fund Manager; or
  - (b) takes steps to wind up or dissolve a Fund or remedy a defect that led to a Fund being deregistered.

## 2.13 Providing custody

- 2.13.1** (1) In Rule 2.2.2, Providing Custody means one or more of the following activities:
- (a) safeguarding Investments belonging to another Person;
  - (b) in the case of a Fund, safeguarding Fund Property;
  - (c) acting as a Central Securities Depository; or
  - (d) administering Investments or Fund Property for the purpose of (a) and (b).
- (2) In (1)(d), the following activities do not constitute the 'administration of such Investments or Fund Property':
- (a) providing information as to the number and value of any Investments or Fund Property safeguarded;

- (b) converting currency; or
  - (c) receiving documents relating to an Investment or Fund Property for the purpose of onward transmission to, from or at the direction of the Person to whom the Investment or Fund Property belongs.
- (3) In (1)(c), “acting as a Central Securities Depository” means holding securities in uncertificated (dematerialised) form to enable book entry transfer of such securities for the purposes of clearing or settlement of transactions executed on a facility operated by an Authorised Market Institution or an Alternative Trading System or a similar facility regulated and supervised by a Financial Services Regulator.

#### **Guidance**

A Person does not become a Fund Manager of a Fund merely by being appointed by a Fund Manager of a Fund to provide the Financial Service of Providing Custody to the Fund. This is because the Fund Manager remains legally accountable to the Unitholders of the Fund for the safe custody and proper management of the Fund in accordance with its Constitution and Prospectus.

## **2.14 Arranging custody**

**2.14.1** In Rule 2.2.2, Arranging Custody means arranging for one or more Persons to carry on the activity described in Rule 2.13.1.

#### **Exclusions**

- 2.14.2** (1) A Person (the ‘introducer’) does not Arrange Custody by introducing a Person to another Person (the ‘custodian’) who is authorised by the DFSA or a Financial Services Regulator to carry on the activity described in Rule 2.13.1, if the introducer is not connected to the custodian.
- (2) For the purposes of (1) an introducer is connected to a custodian if:
- (a) the custodian is a member of the same Group as the introducer; or
  - (b) the introducer is remunerated by the custodian or a member of the custodian’s Group for making the introduction.

## **2.15 Effecting contracts of insurance**

**2.15.1** In Rule 2.2.2, Effecting Contracts of Insurance means effecting such contracts as principal.

## 2.16 Carrying out contracts of insurance

**2.16.1** In Rule 2.2.2, Carrying Out Contracts of Insurance means carrying out such contracts as principal.

## 2.17 Operating an exchange

- 2.17.1** (1) In Rule 2.2.2, Operating an Exchange means operating a facility which functions regularly and brings together multiple third party buying and selling interests in Investments, in accordance with its non-discretionary rules, in a way that can result in a contract in respect of Investments admitted to trading or traded on the facility.
- (2) The facility referred to in (1) may be organised on a temporary or permanent basis and can be an order driven system, a quote driven system or a hybrid of such systems that enables the market to operate electronic trading or trading by other means.
- (3) To the extent that any activity under (1) constitutes Dealing in Investments as Agent, Arranging Credit or Deals in Investments or Arranging Custody, such Financial Services are taken to be incorporated within Operating an Exchange, provided such activity is carried out as an incidental and integral part of the activities of Operating an Exchange.

### Guidance

1. An Authorised Market Institution authorised to Operate an Exchange may carry on the Financial Service of operating a Multilateral Trading Facility, as defined in Rule 2.22.1(1)(a), provided it has an endorsement on its Licence that permits it to do so (see Rule 2.2.12).
2. An Authorised Market Institution may also act as a Trade Repository if it has an endorsement on its Licence that permits it to do so (see Rule 2.2.14). Acting as a Trade Repository does not constitute a Financial Service but is subject to the additional conduct requirements in GEN App 5.

## 2.18 Operating a clearing house

- 2.18.1** (1) In Rule 2.2.2, operating a Clearing House means operating a facility where confirmation, clearance and settlement of transactions in Investments are carried out in accordance with the non-discretionary rules of the facility, under which the Person operating the facility:
- (a) becomes a Central Counterparty (“CCP”); or
  - (b) provides a book-entry Securities Settlement System (“SSS”),
- regardless of whether or not such a Person also operates a Central Securities Depository.

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- (2) In (1), confirmation, clearance and settlement means the process of:
    - (a) establishing settlement positions, including the calculation of net positions arising from any transactions in Investments (the transactions);
    - (b) checking that Investments, cash or both, including margin, are available to secure the exposure arising from the transactions; and
    - (c) securing the timely discharge (whether by performance, compromise or otherwise) of the rights and liabilities in relation to the transactions.
  - (3) In (1)(a), a Person operates as a CCP where it:
    - (a) ensures the performance of open contracts relating to Investments made on a facility for trading Investments; and
    - (b) does so by interposing itself between counterparties to such contracts by becoming either the buyer to every seller, or the seller to every buyer.
  - (4) In (1)(b), a Person operates an SSS where it operates a system which enables Investments held in accounts to be transferred and settled by book entry according to a set of predetermined multilateral rules.
  - (5) Acting as a Central Securities Depository in (1) means holding securities in uncertificated (dematerialised) form to enable book entry transfer of such securities for the purposes of clearing or settlement of transactions on its own facility and on any other similar facility, including an Alternative Trading Facility or a facility supervised or regulated by another Financial Services Regulator.
  - (6) To the extent that any activity under (1) constitutes Dealing In Investments as Principal, Dealing in Investments as Agent, Arranging Credit or Deals in Investments, Managing Assets or Arranging Custody, such Financial Services are taken to be incorporated within Operating a Clearing House, provided such activities are carried out as an incidental and integral part of Operating a Clearing House.

### **Guidance**

1. The activity of operating a Central Securities Depository may be carried on by an Authorised Market Institution licensed to Operate a Clearing House in conjunction with its regulated activities, particularly operating an SSS. An Authorised Firm which has a licence authorising it to carry on Custody Services may also operate a CSD under its licence (see GEN Rule 2.13.1(3)). If a Clearing House were to operate a CSD through a subsidiary, that subsidiary would need to be licensed separately as an Authorised Firm Providing Custody.
2. An Authorised Market Institution Licensed to Operate a Clearing House may also act as a Trade Repository if it has an endorsement on its Licence that permits it to do so (see Rule 2.2.14). Acting as a Trade Repository does not constitute a Financial Service but is subject to the additional conducts requirements in GEN App 5.

## 2.19 Insurance intermediation

**2.19.1** (1) In Rule 2.2.2, Insurance Intermediation means:

- (a) advising on insurance;
  - (b) acting as agent for another Person in relation to the buying or selling of insurance for that other Person; or
  - (c) making arrangements with a view to another Person, whether as principal or agent, buying insurance.
- (2) In (1)(a), 'advising' means giving advice to a Person in his capacity as a policyholder or potential policyholder, or in his capacity as agent for a policyholder or potential policyholder on the merits of his entering into a Contract of Insurance whether as principal or agent.
- (3) In (2), 'advice' includes a statement, opinion or report:
- (a) where the intention is to influence a Person, in making a decision, to select a particular Contract of Insurance or insurance cover; or
  - (b) which could reasonably be regarded as being intended to have such influence.
- (4) The arrangements in (1)(c) include arrangements which do not bring about the transaction.
- (5) The arrangements in (1)(c) do not include arrangements of the kind described in Rule 2.26.1 that constitute marketing.

### Guidance

In regard to arrangements under Rule 2.19.1(5), pursuant to Rule 2.2.10, an Authorised Firm (other than a Representative Office) may carry on an activity of the kind described in Rule 2.26.1 that constitutes marketing without the need for any additional authorisation to do so.

### Exclusions

**2.19.2** A Person does not carry on the activities specified in Rule 2.19.1(1)(b) or (c) if he enters or is to enter into a transaction in respect of a Contract of Insurance as principal.

**2.19.3** A Person does not carry on Insurance Intermediation if the activity:

- (a) is carried on in the course of any professional business which does not otherwise consist of the carrying on of Financial Services;
- (b) may reasonably be regarded as a necessary part of any other services provided in the course of that professional business; and
- (c) is not remunerated separately from the other services.

**2.19.4** A Person does not give advice in relation to a Contract of Insurance by giving advice in any newspaper, journal, magazine, broadcast service or similar

service in any medium if the principal purpose of the publication or service, taken as a whole, is neither:

- (a) that of giving advice of the kind mentioned in Rule 2.19.1; nor
- (b) that of leading or enabling Persons to buy types of insurance.

**2.19.5** A Person does not arrange a Contract of Insurance merely by providing the means by which one party to a transaction is able to communicate with other such parties.

**2.19.6** A Person who is an Authorised Firm does not advise in relation to an Insurance Contract if it is authorised under its Licence to carry on the Financial Service of Advising on Financial Products or Credit, to the extent the advice relates to a contract of Long-Term Insurance not being a contract of reinsurance.

**2.19.7** A Person who is an Authorised Firm does not arrange a Contract of Insurance if it is authorised under its Licence to carry on the Financial Service of Arranging Credit or Deals in Investments, to the extent that the arranging relates to rights under a contract of Long-Term Insurance not being a contract of reinsurance.

## **2.20 Insurance management**

**2.20.1** (1) In Rule 2.2.2, Insurance Management means providing management services or exercising managerial functions for an insurer.

(2) In (1) management services and managerial functions include administration and underwriting.

(3) In (1) an 'insurer' means a Person effecting or carrying out Contracts of Insurance.

### **Exclusions**

**2.20.2** A Person does not provide Insurance Management to an insurer if he is an Employee of that insurer.

**2.20.3** A Person who is an Authorised Firm does not provide Insurance Management if it is an Insurer.

## **2.21 Managing a profit sharing investment account**

**2.21.1** In Rule 2.2.2, Managing a Profit Sharing Investment Account means managing an account or portfolio which is a Profit Sharing Investment Account.

## 2.22 Operating an alternative trading system

- 2.22.1** (1) In Rule 2.2.2, Operating an Alternative Trading System means:
- (a) operating a Multilateral Trading Facility (“MTF”); or
  - (b) operating an Organised Trading Facility (“OTF”).
- (2) In (1)(a), a Person operates an MTF if that Person operates a system which brings together multiple third party buying and selling interests in Investments, in accordance with its non-discretionary rules, in a way that results in a contract in respect of such Investments.
- (3) In (1)(b), a Person operates an OTF if that Person operates a system which brings together multiple third party buying and selling interests in Investments, in accordance with its discretionary rules, in a way that results in a contract in respect of such Investments.

### Guidance

The main distinction between operating an MTF and operating an OTF is that the former is operated in accordance with the non-discretionary rules adopted and implemented by the operator, whereas the latter is operated in accordance with the discretionary rules of the operator. Accordingly, a Person operating an OTF has more flexibility relating to how it applies its rules to participants on its facility, whereas a Person operating an MTF is required to apply its rules in a non-discretionary manner across all participants on its facility.

### Exclusion

- 2.22.2** A Person does not carry on the activity of the kind specified in Rule 2.22.1 if it operates a facility which is merely an order routing system where buying and selling interests in, or orders for, Investments are merely transmitted but do not interact.

## 2.23 Providing Trust Services

- 2.23.1** In Rule 2.2.2, Providing Trust Services means:
- (a) the provision of services with respect to the creation of an express trust;
  - (b) arranging for any Person to act as a trustee in respect of any express trust;
  - (c) acting as trustee in respect of an express trust;
  - (d) the provision of Trust Administration Services in respect of an express trust; or
  - (e) acting as protector or enforcer in respect of an express trust.

**Guidance**

Providing generic advice on the desirability of using a trust does not amount to Providing Trust Services as defined in Rule 2.23.1.

**Exclusions**

**2.23.2** A Person meeting part (1)(d) or (e) of the definition of a DNFBP does not provide Trust Services where it only:

- (a) arranges for a Person to act as trustee in respect of an express trust;  
or
- (b) provides services with respect to the creation of an express trust;  
provided that:
  - (i) the provision of such services is solely incidental to the practice of law or accounting as the case may be; and
  - (ii) the DNFBP is not holding itself out as Providing Trust Services.

**Guidance**

Acting as trustee, protector or enforcer or Providing Trust Administration Services are not activities incidental to the practice of law or accounting and require a Licence.

**2.23.3** A Person is not Providing Trust Services if that Person is the Trustee of a Fund and the activities are in connection with or arise from, acting as the Trustee of the Fund.

**2.24 Providing fund administration**

**2.24.1** In Rule 2.2.2, Providing Fund Administration means providing one or more of the following services in relation to a Fund:

- (a) processing dealing instructions including subscriptions, redemptions, stock transfers and arranging settlements;
- (b) valuing of assets and performing net asset value calculations;
- (c) maintaining the share register and Unitholder registration details;
- (d) performing anti money laundering requirements;
- (e) undertaking transaction monitoring and reconciliation functions;
- (f) performing administrative activities in relation to banking, cash management, treasury and foreign exchange;
- (g) producing financial statements, other than as the Fund's registered auditor; or



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- (h) communicating with participants, the Fund, the Fund Manager, and investment managers, the prime brokers, the Regulators and any other parties in relation to the administration of the Fund.

## 2.25 Acting as the Trustee of a Fund

- 2.25.1** (1) In Rule 2.2.2, Acting as the Trustee of a Fund means holding the assets of a Fund on trust for the Unitholders where the Fund is in the form of an Investment Trust.
- (2) To the extent that any activity under (1) constitutes Providing Fund Administration or Providing Custody, such a Financial Service is taken to be incorporated within Acting as the Trustee of a Fund.

### Guidance

Rule 2.25.1(2) alleviates any requirement upon a Trustee to obtain further authorisations for certain Financial Services where the activities fall within the ordinary scope of the activity of Acting as the Trustee of a Fund. The provision also facilitates the delegation of these discrete activities under CIR section 7.3.

### Exclusions

- 2.25.2** A Person is not Acting as the Trustee of a Fund merely because he is acting as an agent, employee or delegate of a Trustee.

## 2.26 Operating a Representative Office

- 2.26.1** (1) In Rule 2.2.2 Operating a Representative Office means the marketing of one or more financial services or financial products which are offered in a jurisdiction other than the DIFC.
- (2) For the purposes of (1) 'marketing' means:
- (a) providing information on one or more financial products or financial services;
  - (b) engaging in promotions in relation to (a); or
  - (c) making introductions or referrals in connection with the offer of financial services or financial products;
- provided that such activities do not constitute:
- (d) Advising on Financial Products or Credit; or
  - (e) receiving and transmitting orders in relation to a financial product.
- (3) For the purposes of (1) and (2) (a), (c) and (d), the term 'financial product' means an Investment, a Credit Facility, a Deposit, a Profit Sharing Investment Account or a Contract of Insurance.

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### Exclusions

- 2.26.2** An Authorised Firm other than a Representative Office does not Operate a Representative Office if it undertakes any activities of the kind described in Rule 2.26.1 that constitute marketing.
- 2.26.3** Any communication which amounts to marketing in respect of a financial service or financial product, which is issued by or on behalf of a government or non-commercial government entity, does not constitute marketing for the purposes of Rule 2.26.1.

### 2.27 Operating a Credit Rating Agency

- 2.27.1** (1) In Rule 2.2.2, Operating a Credit Rating Agency means undertaking one or more Credit Rating Activities for the purpose of producing a Credit Rating with a view to that Credit Rating being:
- (a) disseminated to the public; or
  - (b) distributed to a Person by subscription;
- whether or not it is in fact disseminated or distributed.
- (2) For the purposes of (1):
- (a) Credit Rating Activities are data and information analysis relating to a Credit Rating or the evaluation, approval, issue or review of a Credit Rating; and
  - (b) a Credit Rating is an opinion expressed using an established and defined ranking system of rating categories regarding the creditworthiness of a Rating Subject.
- (3) In (2), a Rating Subject means:
- (a) a Person other than a natural person;
  - (b) a credit commitment; or
  - (c) a debt or debt-like Investment.

### Exclusions

- 2.27.2** A Person does not Operate a Credit Rating Agency where that Person prepares any credit scores, credit scoring systems or similar assessments relating to obligations arising from consumer, commercial or industrial relationships.

### Guidance

1. The effect of Rule 2.27.1 is that even if a Person undertakes from a place of business in the DIFC some but not all of the Credit Rating Activities for the purpose of producing a Credit Rating, that Person needs to have a Licence authorising it to Operate a Credit Rating Agency.

2. Where a Credit Rating Agency outsources some of its Credit Rating Activities, it will need to ensure that it meets the relevant requirements, including those relating to outsourcing, in Rule 5.3.21.
3. There is no express prohibition against carrying on the Financial Service of Operating a Credit Rating Agency by Persons who are authorised to carry on other Financial Services. However, the specific conduct requirements applicable to Credit Rating Agencies in COB chapter 8, include a prohibition against certain types of consultancy and advisory services being provided by a Credit Rating Agency. Therefore, even if a Credit Rating Agency has an appropriate Licence authorising it to provide advice on financial products, it will not be able to provide the prohibited type of consultancy and advisory services.
4. A Person may provide a private Credit Rating for the exclusive use of another Person (Second Person) without seeking a License authorising it to Operate a Credit Rating Agency where the Credit Rating is produced based on the request of the Second Person and is not intended to be disseminated to the public or distributed by subscription. Such a Person may wish to include an express warning in the Credit Rating that it is intended only for the exclusive use of the Second Person and obtain from such Second Person a prior written undertaking that the Credit Rating will not be disseminated to the public or distributed on subscription.
5. Credit scoring referred to in Rule 2.27.2 is a method of assessing creditworthiness. A credit score is primarily based on credit report information typically sourced from credit bureaus. A Person does not become a Credit Rating Agency merely by preparing or providing credit assessments. Lenders, such as banks and credit card companies, use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt. Insurance companies, and government departments also employ the same techniques.

## **2.28 Definition of Financial Product (for misleading and deceptive conduct prohibition)**

- 2.28.1** Pursuant to Article 41B(2) of the Regulatory Law, a “Financial Product” in Article 41B of that Law is prescribed to mean an Investment, a Credit Facility, a Deposit, a Profit Sharing Investment Account or a Contract of Insurance.

## 3. FINANCIAL PROMOTIONS

### 3.1 Application

**3.1.1** This chapter applies to any Person who approves, makes or intends to make a Financial Promotion in or from the DIFC.

**3.1.2** Rules 3.4.1 to 3.6.3 do not apply to a Person who makes an Offer which is in accordance with the requirements relating to:

- (a) an Offer of Securities under the Markets Law 2012 and the MKT Rules; or
- (b) an Offer of Units under the Collective Investment Law 2010 and CIR Rules.

### 3.2 Overview

**3.2.1** The Rules in this chapter are made for the purposes of the Financial Promotions Prohibition in Article 41A of the Regulatory Law 2004.

#### Guidance

1. Article 41A(3) of the Regulatory Law 2004 defines a Financial Promotion as:
 

*“Any communication, however made, which invites or induces a Person to:*

  - (a) *enter into, or offer to enter into, an agreement in relation to the provision of a financial service; or*
  - (b) *exercise any rights conferred by a financial product or acquire, dispose of, underwrite or convert a financial product.”*
2. The Guidance in this chapter is designed to help explain the scope of the Financial Promotions Prohibition.
3. The definition of a Financial Promotion is very broad and encompasses the definitions of a “financial promotion” in Article 19(3) of the Collective Investment Law 2010. A Financial Promotion also includes “marketing material” as defined elsewhere in the Rulebook.
4. The DFSA considers that a Financial Promotion may be made in any manner and by any form including, but not limited to, an oral, electronic or written communication and includes an advertisement, or any form of promotion or marketing. A disclaimer stating that a communication is not a Financial Promotion would not, on its own, prevent a communication from being a Financial Promotion.
5. A Person who is permitted to make a Financial Promotion in the DIFC pursuant to these Rules should ensure that in making such a Financial Promotion he does not breach the Financial Services Prohibition in Article 41 of the Regulatory Law 2004.

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6. Depending on the nature and scale of the activities, if a Person makes Financial Promotions on a regular basis or for a prolonged period while physically located in the DIFC, for example by way of a booth, meetings or conferences, the DFSA may consider such activities as constituting the carrying on of a Financial Service, such as Operating a Representative Office. The DFSA considers that in the context of Financial Promotions, “a regular basis” would be anything more than occasional and “a prolonged period” would usually be anything more than 3 consecutive days.

### **3.3 Definition of a Financial Product**

- 3.3.1** Pursuant to Article 41A(4) of the Regulatory Law 2004, “financial product” in Article 41A(3)(b) of the Regulatory Law 2004 is hereby prescribed to mean an Investment, a Credit Facility, a Deposit, a Profit Sharing Investment Account, or a Contract of Insurance.

### **3.4 Scope of the Financial Promotions Prohibition**

- 3.4.1** (1) A Person shall not, subject to (2), make a Financial Promotion in or from the DIFC unless that Person is an Authorised Person.
- (2) A Person other than an Authorised Person may make a Financial Promotion in or from the DIFC if, and only to the extent that, the Person:
- (a) is licensed and supervised by a Financial Services Regulator in the UAE;
  - (b) is a Recognised Body or External Fund Manager;
  - (c) is a Reporting Entity and makes a Financial Promotion in or from the DIFC exclusively for the purpose of discharging its mandatory disclosure requirements; or
  - (d) makes an exempt Financial Promotion as specified in (3).
- (3) For the purposes of (2)(d), a communication is an “exempt Financial Promotion” if it is:
- (a) approved by an Authorised Firm;
  - (b) directed at and capable of acceptance exclusively by a Person who appears on reasonable grounds to be a Professional Client of the type specified in COB Rule 2.3.4;
  - (c) made to a Person in the DIFC (the “recipient”) as a result of an unsolicited request by the recipient to receive the Financial Promotion;
  - (d) made or issued by or on behalf of a government or non-commercial government entity; or
  - (e) made in the DIFC by a Person in the course of providing legal or accountancy services and may reasonably be regarded as

incidental to and a necessary part of the provision of such services.

**3.4.2** A Person does not breach the Financial Promotions Prohibition if:

- (a) the Person causes a Financial Promotion to be made in the course of providing a facility which is a mere conduit for the making of the Financial Promotion;
- (b) the Person is located outside the DIFC and makes a Financial Promotion which appears, on reasonable grounds, to be a communication which is not directed at or intended to be acted upon by a Person in the DIFC; or
- (c) the Financial Promotion is not made for a commercial or business purpose.

**Guidance**

1. Examples of a mere conduit would include a newspaper or magazine, a website carrying third-party banner ads, a postman or courier, a person paid to hand out promotional material to the public and an event venue - unless in each case they were the originator i.e the Person who makes the Financial Promotion.
2. In Rule 3.4.2(b) the DFSA considers that the following non-exhaustive list of factors may each be indicative of whether or not a Financial Promotion is “intended to be acted upon by, or targeted at, Persons in the DIFC”:
  - i. whether it is expressed to be for a Person or type of Person in the DIFC;
  - ii. whether it is sent to an address (including a P.O. Box) in the DIFC;
  - iii. whether it is physically distributed to Persons in the DIFC;
  - iv. whether it takes place in the DIFC;
  - v. whether it makes reference to the DIFC;
  - vi. whether it appears in a DIFC publication;
  - vii. whether it appears on a DIFC-based or related website or other media
  - viii. whether it is sent to the email of a Person in the DIFC; or
  - ix. whether it contains a prominent and clear disclaimer on its face that it is not intended to be acted upon by Persons in the DIFC.
3. The DFSA in applying Rule 3.4.2(c) will generally consider that for a communication to be made “for a commercial or business purpose” there must be a commercial element to the Financial Promotion, whether or not the Financial Promotion actually leads to the provision of any financial service. However, the DFSA considers that “for a commercial or business purpose” requires a commercial or business interest on the part of the communicator and the nature of the communicator’s business need not be related to any specific financial service.
4. The DFSA considers that a Person located outside the DIFC who makes a Financial Promotion into the DIFC, makes that communication in the DIFC. The DFSA considers that the prohibition in Article 41A(1) applies irrespective of where the communicator of the Financial Promotion is located.

### 3.5 Additional Rules for Financial Promotions

- 3.5.1** (1) A Person in Rule 3.4.1(2) (a) to (d) must, subject to (2), take reasonable care to ensure that any Financial Promotion it makes in or from the DIFC:
- (a) is clear, fair and not misleading;
  - (b) includes the Person's name, address and regulatory status;
  - (c) if it is intended only for Professional Clients, is not sent or directed to any Person who appears on reasonable grounds not to be a Professional Client, and contains a clear statement that only a Person meeting the criteria for a Professional Client should act upon it; and
  - (d) which is provided to or directed at a Retail Client and contains any information or representation relating to past performance, or any forecast based on past performance or on any other assumptions:
    - (i) presents a balanced view of the financial products or financial services to which the Financial Promotion relates;
    - (ii) identifies, in an easy to understand manner, the information from which the past performance or forecast is derived and how any key facts and assumptions used in that context are drawn; and
    - (iii) contains a prominent warning that past performance is not necessarily a reliable indicator of future performance.
- (2) A Person described in Rule 3.4.1(2)(a) who makes a Financial Promotion to an existing client in the DIFC is not required to comply with (1) provided that in making the Financial Promotion that Person complies with the requirements of the relevant Financial Services Regulator in the UAE which relate to Financial Promotions.

#### Guidance

1. In presenting information relating to past performance of a financial product or financial service, a Person should use a reputable independent actuarial, financial or statistical reporting service provider.
2. The effect of Rule 3.5.1(2) is that a Person who is licensed and regulated by a Financial Services Regulator in the UAE is not required to comply with Rule 3.5.1(1) when communicating with an existing client. However, when making a Financial Promotion to a prospective client in the DIFC, Rule 3.5.1(1) does apply to such Persons, as do the prohibitions on the making of offers contained in the Markets Law 2012 and Collective Investment Law 2010 respectively.

- 3.5.2** A Person must not, in any Financial Promotion, attempt to limit or avoid any duty or liability it may have under any DFSA-administered laws or the Rules.

### **3.6 Approval of Financial Promotions by an Authorised Firm**

**3.6.1** For the purposes of GEN Rule 3.4.1(3)(a), an Authorised Firm must not approve a Financial Promotion unless:

- (a) the Financial Promotion includes a clear and prominent statement that it has been “approved by” the relevant Authorised Firm; and
- (b) the Financial Promotion is made in accordance with the requirements in Section 3.5.

**3.6.2** An Authorised Firm must not approve a Financial Promotion which is directed at a Person who appears on reasonable grounds to be a Retail Client unless:

- (a) it has an endorsement on its License which permits it to carry on a Financial Service with or for a Retail Client; and
- (b) the scope of its License includes the Financial Service and, if applicable, the particular financial product, to which the Financial Promotion relates.

**3.6.3** An Authorised Firm must ensure that a Financial Promotion it has approved complies with the requirements in this chapter on an on-going basis.

#### **Guidance**

An Authorised Firm which proposes to approve a Financial Promotion where all or part of that promotion will be real time, such as a live event, will need to consider whether it is able to comply effectively with any relevant Rules in relation to the Financial Promotion or its approval



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## 4 CORE PRINCIPLES

### 4.1 Principles for Authorised Firms – application

- 4.1.1** (1) The twelve Principles for Authorised Firms, set out in section 4.2, apply subject to (2) and (3) to every Authorised Firm in accordance with Rules 4.1.2 and 4.1.3.
- (2) The twelve Principles for Authorised Firms, set out in section 4.2, do not apply to an Authorised Firm which is a Representative Office.
- (3) An Authorised Firm which is a Credit Rating Agency does not have to comply with the Principles set out in Rules 4.2.6, 4.2.7, 4.2.8 and 4.2.9.
- 4.1.2** (1) For the purposes of Rule 4.1.3 the term ‘activities’ means:
- (a) Financial Services business;
  - (b) activities carried on in connection with a Financial Service business;
  - (c) activities held out as being for the purpose of a Financial Service business; and
  - (d) in relation to any particular Principle, any activity specified in (2), (3) and (4).
- (2) Principles 3 and 4 also apply in a Prudential Context to an Authorised Firm with respect to the carrying on of all its activities.
- (3) Principles 3 and 4 also take into account any activities of other members of the Group of which the Authorised Firm is a member.
- (4) Principles 10 and 11, to the extent that it relates to disclosing to the DFSA, also applies to an Authorised Firm with respect to the carrying on of all its activities, and takes into account any activities of other members of the Group of which the Authorised Firm is a member.
- 4.1.3** (1) The Principles apply to an Authorised Firm only with respect to activities carried on from an establishment maintained by it in the DIFC, unless an extension in (2), (3), (4) or (5) applies.
- (2) Where another applicable Rule, which is relevant to the activity, has a wider territorial scope than that in (1), any related Principle applies with that wider scope in relation to the activity described in the Rule.
- (3) Principles 1, 2 and 3 apply in a Prudential Context to an Authorised Firm with respect to activities wherever they are carried on.
- (4) Principles 4 and 11 apply to an Authorised Firm with respect to activities wherever they are carried on.

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- (5) Principle 5 also applies to an Authorised Firm with respect to the activities carried on in or from any place outside the DIFC if and to the extent that the activities have, or might reasonably be regarded as likely to have, a negative effect on confidence in the financial markets operating in the DIFC.

**Guidance**

1. The Principles for Authorised Firms have the status of Rules and are a general statement of fundamental regulatory requirements which apply alongside the other Rules and also in new or unforeseen situations which may not be covered elsewhere by a specific Rule. Rules in other areas of the Rulebook build upon these fundamental principles. Consequently the Rules and Guidance elsewhere in the Rulebook should not be seen as exhausting the implications of the Principles.
2. Breaching a Principle for Authorised Firms makes an Authorised Firm liable to disciplinary action, and may indicate that it is no longer fit and proper to carry on a Financial Service or to hold a Licence and the DFSA may consider withdrawing authorisation or the Licence on that basis.
3. The onus will be on the DFSA to show that the Authorised Firm has been at fault in some way, taking into account the standard of conduct required under the Principle in question.

**4.2 The Principles for Authorised Firms****Principle 1 - Integrity**

- 4.2.1** An Authorised Firm must observe high standards of integrity and fair dealing.

**Principle 2 - Due skill, care and diligence**

- 4.2.2** In conducting its business activities an Authorised Firm must act with due skill, care and diligence.

**Principle 3 - Management, systems and controls**

- 4.2.3** An Authorised Firm must ensure that its affairs are managed effectively and responsibly by its senior management. An Authorised Firm must have adequate systems and controls to ensure, as far as is reasonably practical, that it complies with legislation applicable in the DIFC.

**Principle 4 - Resources**

- 4.2.4** An Authorised Firm must maintain and be able to demonstrate the existence of adequate resources to conduct and manage its affairs. These include adequate financial and system resources as well as adequate and competent human resources.

**Principle 5 - Market conduct**

- 4.2.5** An Authorised Firm must observe proper standards of conduct in financial markets.

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**Principle 6 - Information and interests**

- 4.2.6** An Authorised Firm must pay due regard to the interests of its customers and communicate information to them in a way which is clear, fair and not misleading.

**Principle 7 - Conflicts of interest**

- 4.2.7** An Authorised Firm must take all reasonable steps to ensure that conflicts of interest between itself and its customers, between its Employees and customers and between one customer and another are identified and then prevented or managed, or disclosed, in such a way that the interests of a customer are not adversely affected.

**Principle 8 - Suitability**

- 4.2.8** An Authorised Firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for customers who are entitled to rely upon its judgement.

**Principle 9 - Customer assets and money**

- 4.2.9** Where an Authorised Firm has control of or is otherwise responsible for assets or money belonging to a customer which it is required to safeguard, it must arrange proper protection for them in accordance with the responsibility it has accepted.

**Principle 10 - Relations with regulators**

- 4.2.10** An Authorised Firm must deal with Regulators in an open and co-operative manner and keep the DFSA promptly informed of significant events or anything else relating to the Authorised Firm of which the DFSA would reasonably expect to be notified.

**Principle 11 - Compliance with high standards of corporate governance**

- 4.2.11** An Authorised Firm must have a corporate governance framework as appropriate to the nature, scale and complexity of its business and structure, which is adequate to promote the sound and prudent management and oversight of the Authorised Firm's business and to protect the interests of its customers and stakeholders.

**Guidance**

Corporate governance framework encompasses structural and procedural arrangements such as systems, policies and practices that are put in place to promote good governance and include the specific measures required under GEN Rule 5.3.30.

**Principle 12 – Remuneration practices**

- 4.2.12** An Authorised Firm must have a remuneration structure and strategies which are well aligned with the long term interests of the firm, and are appropriate to the nature, scale and complexity of its business.

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## 4.3 Principles for Authorised Individuals – application

**4.3.1** The six Principles for Authorised Individuals set out in section 4.4 apply to every Authorised Individual in respect of every Licensed Function.

### Guidance

1. The Principles for Authorised Individuals do not apply to an Authorised Individual in respect of any other functions he may carry out, although his conduct in those functions may be relevant to his fitness and propriety.
2. Breaching a Principle for Authorised Individuals makes an Authorised Individual liable to disciplinary action and may indicate that he is no longer fit and proper to perform a Licensed Function and the DFSA may consider suspending or withdrawing Authorised Individual status on that basis.
3. The onus will be on the DFSA to show that he is culpable, taking into account the standard of conduct required under the Principle in question. In determining whether or not the particular conduct of an Authorised Individual complies with the Principles for Authorised Individuals, the DFSA will take account of whether that conduct is consistent with the requirements and standards relevant to his Authorised Firm, the Authorised Individual's own role and the information available to him.

## 4.4 The Principles for Authorised Individuals

### Principle 1 - Integrity

**4.4.1** An Authorised Individual must observe high standards of integrity and fair dealing in carrying out every Licensed Function.

### Principle 2 - Due skill, care and diligence

**4.4.2** An Authorised Individual must act with due skill, care and diligence in carrying out every Licensed Function.

### Principle 3 - Market conduct

**4.4.3** An Authorised Individual must observe proper standards of conduct in financial markets in carrying out every Licensed Function.

### Principle 4 - Relations with the DFSA

**4.4.4** An Authorised Individual must deal with the DFSA in an open and co-operative manner and must disclose appropriately any information of which the DFSA would reasonably be expected to be notified.

### Principle 5 - Management, systems and control

**4.4.5** An Authorised Individual who has significant responsibility must take reasonable care to ensure that the business of the Authorised Firm for which he is responsible is organised so that it can be managed and controlled effectively.

**Principle 6 - Compliance**

- 4.4.6** An Authorised Individual who has significant responsibility must take reasonable care to ensure that the business of the Authorised Firm for which he is responsible complies with any legislation applicable in the DIFC.

## 5 MANAGEMENT, SYSTEMS AND CONTROLS

### 5.1 Application

- 5.1.1** (1) Subject to (5), this chapter applies to every Authorised Person with respect to the Financial Services carried on in or from the DIFC.
- (2) It also applies in a Prudential Context to a Domestic Firm with respect to all its activities wherever they are carried on.
- (3) Section 5.3 also applies to an Authorised Firm in a Prudential Context with respect to its entire DIFC branch's activities wherever they are carried on.
- (4) This chapter also applies to an Authorised Market Institution, if it has an endorsed Licence authorising it to maintain an Official List of Securities, with respect to such maintenance.
- (5) Rules 5.3.13, 5.3.14, 5.3.15, 5.3.23, 5.3.24, 5.3.30 and 5.3.31 do not apply to an Authorised ISPV.
- (6) This chapter does not apply to a Representative Office.

#### Guidance

1. The purpose of this chapter is to set out the requirements for the Governing Body and the senior management within an Authorised Person who are to take direct responsibility for the Authorised Person's arrangements on matters likely to be of interest to the DFSA wherever they may give rise to risks to the DFSA's objectives or they affect the DFSA's functions under the legislation applicable in the DIFC. See also the requirements relating to organisation in Rules 5.3.2 and 5.3.3.
2. In relation to an Authorised Market Institution, this chapter should be read in conjunction with the AMI module.
3. In relation to an Authorised Firm which is a Fund Manager or the Trustee, this chapter should be read in conjunction with the CIR module and construed to take into account any Fund which the Authorised Firm operates or for which it acts as the Trustee.
4. In relation to an Authorised Person which carries on Islamic Financial Business in or from the DIFC, this chapter should be read in conjunction with the IFR module.

### 5.2 Allocation of significant responsibilities

#### Apportionment of significant responsibilities

- 5.2.1** An Authorised Person must apportion significant responsibilities between the members of its Governing Body and its senior management and maintain such apportionment in such a way that:
- (a) it meets the corporate governance requirements in Rule 5.3.30;
  - (b) it is appropriate with regard to:

- (i) the nature, scale and complexity of the business of the Authorised Person; and
- (ii) the ability and qualifications of the responsible individuals;
- (c) it is clear who is responsible for which matters; and
- (d) the business of the Authorised Person can be adequately monitored and controlled by the Authorised Person's Governing Body and senior management.

**5.2.2** An Authorised Person must allocate to the Senior Executive Officer or to the individual holding equivalent responsibility for the conduct for the Authorised Person's business or the Governing Body, the functions of:

- (a) dealing with the apportionment of responsibilities; and
- (b) overseeing the establishment and maintenance of systems and controls.

**Guidance**

Rules 5.2.1 and 5.2.2 do not derogate from the overall responsibility of the Governing Body in Rule 5.3.30(2).

**Recording of apportionment**

- 5.2.3**
- (1) An Authorised Person must establish and maintain an up-to-date record of the arrangements it has made to comply with Rules 5.2.1 and 5.2.2.
  - (2) The record must show that the members of the Governing Body and the senior management are aware of and have accepted the responsibilities apportioned in accordance with Rule 5.2.1.
  - (3) Where a responsibility has been allocated to more than one individual, the record must show clearly how that responsibility is allocated between the individuals.
  - (4) The record must be retained for six years from the date on which it was established or superseded by a more up-to-date record.

**5.3 Systems and controls**

**General requirement**

- 5.3.1**
- (1) An Authorised Person must establish and maintain systems and controls, including but not limited to financial and risk systems and controls, that ensure that its affairs are managed effectively and responsibly by its senior management.
  - (2) An Authorised Person must undertake regular reviews of its systems and controls.

### Guidance

The nature and extent of the systems and controls of an Authorised Person will depend upon a variety of factors including the nature, scale and complexity of its business. While all Authorised Persons, irrespective of the nature, scale, and complexity of their business and legal structure or organisation need to comply with this chapter, the DFSA will take into account these factors and the differences that exist between Authorised Persons when assessing the adequacy of an Authorised Person's systems and controls. Nevertheless, neither these factors nor the differences relieve an Authorised Person from compliance with its regulatory obligations.

### Organisation

- 5.3.2** (1) An Authorised Person must establish and implement, taking due account of the nature, scale and complexity of its business and structure, adequate measures to ensure that:
- (a) the roles and responsibilities assigned to its Governing Body and the members of that body, senior management and Persons Undertaking Key Control Functions are clearly defined;
  - (b) there are clear reporting lines applicable to the individuals undertaking those functions; and
  - (c) the roles, responsibilities and reporting lines referred to in (a) and (b) are documented and communicated to all relevant Employees.
- (2) An Authorised Firm must ensure that any Employee who will be delivering Financial Services to its customers is clearly identified, together with his respective lines of accountability and supervision.
- (3) An Authorised Firm which is conducting Investment Business or the Financial Services of Providing Fund Administration or Providing Trust Services, must ensure it makes publically available details of any Employee who delivers Financial Services to its customers, by including such information:
- (a) in a register, maintained by the Authorised Firm at its place of business and open for inspection during business hours; or
  - (b) on the website of the Authorised Firm.
- (4) An Authorised Firm referred to in (3), must have complete and up to date information on its register or website, including:
- (a) the date on which the relevant Employee commenced delivering of Financial Services to customers; and
  - (b) the Financial Services which that Employee is permitted by the Authorised Firm to deliver to customers.



**Guidance**

1. The term Employee is defined in the GLO widely and includes members of the Governing Body or directors and senior managers of the Authorised Firm. Therefore, the requirements relating to Employees in Rules 5.3.3 and 5.3.6 apply to all Employees including those across the organisation.
2. The division of responsibilities between the Governing Body and the senior management should be clearly established and set out in writing. In assigning duties, the Governing Body should take care that no one individual has unfettered powers in making material decisions.
3. Members of the Governing Body may include individuals undertaking senior management functions (such as the chief executive of the firm) and Persons Undertaking Key Control Functions. In assigning specific functions to such individuals, care should be taken to ensure that the integrity and effectiveness of the functions they are to perform are not compromised. For example, if the Chairperson of the Governing Body is also the chief executive officer of the Authorised Person, the Governing Body should ensure that the performance assessment of that individual in his roles should be undertaken by a senior non-executive member of the Governing Body or an independent external consultant.
4. Persons Undertaking Key Control Functions are defined in GLO in an inclusive manner to encompass Persons such as the heads of risk control, compliance and internal audit functions. In the case of an Insurer, the actuary also is a Person who Undertakes a Key Control Function.
5. An example of an Employee providing Financial Services to a customer is a client relationship manager employed by an Authorised Firm providing wealth management services. In contrast, an Employee who may be employed in the back office of an Authorised Firm with responsibility for setting up client accounts would not be client facing.

**5.3.3** An Authorised Person must ensure that key duties and functions are segregated. Such segregation must ensure that the duties and functions to be performed by the same individual do not conflict with each other, thereby impairing the effective discharge of those functions by the relevant individuals (such as undetected errors or any abuse of positions) and thus exposing the Authorised Person or its customers or users to inappropriate risks.

**Risk management**

**5.3.4** An Authorised Person must establish and maintain risk management systems and controls to enable it to identify, assess, mitigate, control and monitor its risks.

**5.3.5** An Authorised Person must develop, implement and maintain policies and procedures to manage the risks to which the Authorised Person and where applicable, its customers or users, are exposed.

- 5.3.6** (1) An Authorised Person must appoint an individual to advise its Governing Body and senior management of such risks.
- (2) An Authorised Person which is part of a Group should be aware of the implications of any Group wide risk policy and systems and controls regime.

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### **Compliance**

- 5.3.7** An Authorised Person must establish and maintain compliance arrangements, including processes and procedures that ensure and evidence, as far as reasonably practicable, that the Authorised Firm complies with all legislation applicable in the DIFC.
- 5.3.8** An Authorised Person must document the organisation, responsibilities and procedures of the compliance function.
- 5.3.9** An Authorised Person must ensure that the Compliance Officer has access to sufficient resources, including an adequate number of competent staff, to perform his duties objectively and independently of operational and business functions.
- 5.3.10** An Authorised Person must ensure that the Compliance Officer has unrestricted access to relevant records and to the Authorised Person's Governing Body and senior management.
- 5.3.11** An Authorised Person must establish and maintain monitoring and reporting processes and procedures to ensure that any compliance breaches are readily identified, reported and promptly acted upon.
- 5.3.12** An Authorised Person must document the monitoring and reporting processes and procedures as well as keep records of breaches of any of legislation applicable in the DIFC.

### **Internal audit**

- 5.3.13** (1) An Authorised Person must establish and maintain an internal audit function with responsibility for monitoring the appropriateness and effectiveness of its systems and controls.
- (2) The internal audit function must be independent from operational and business functions.

### **Guidance**

The Person appointed as the Internal Auditor of an Authorised Market Institution is a Key Individual pursuant to AMI Rule 5.3.1.

- 5.3.14** An Authorised Person must ensure that its internal audit function has unrestricted access to all relevant records and recourse when needed to the Authorised Person's Governing Body or the relevant committee, established by its Governing Body for this purpose.
- 5.3.15** An Authorised Person must document the organisation, responsibilities and procedures of the internal audit function.

### **Business plan and strategy**

- 5.3.16** (1) An Authorised Person must produce a business plan which enables it, amongst other things, to manage the risks to which it and its customers are exposed.

- (2) The business plan must take into account the Authorised Person's current business activities and the business activities forecast for the next twelve months.
- (3) The business plan must be documented and updated as appropriate to take account of changes in the business environment and to reflect changes in the business of the Authorised Person.

### **Management information**

**5.3.17** An Authorised Person must establish and maintain arrangements to provide its Governing Body and senior management with the information necessary to organise, monitor and control its activities, to comply with legislation applicable in the DIFC and to manage risks. The information must be relevant, accurate, comprehensive, timely and reliable.

### **Staff and agents**

**5.3.18** An Authorised Person must establish and maintain systems and controls that enable it to satisfy itself of the suitability of anyone who acts for it.

**5.3.19** (1) An Authorised Firm must ensure, as far as reasonably practical, that its Employees are:

- (a) fit and proper;
- (b) competent and capable of performing the functions which are to be assigned to those Employees; and
- (c) trained in the requirements of the legislation applicable in the DIFC.

(2) An Authorised Firm must establish and maintain systems and controls to comply with (1). An Authorised Firm must be able to demonstrate that it has complied with these requirements through appropriate measures, including the maintenance of relevant records.

### **Guidance**

1. When considering whether an Employee is fit and proper, competent and capable, an Authorised Firm should consider any training undertaken or required by an Employee, the nature of the Clients to whom an Employee provides Financial Services, and the type of activities performed by an Employee in the provision of such Financial Services including any interface with Clients.
2. When assessing the fitness and propriety of Employees, an Authorised Firm should be guided by the matters set out in section 2.3 of the RPP Sourcebook and should also monitor conflicts or potential conflicts of interest arising from all of the individual's links and activities.
3. When assessing the competence and capability of an Employee, an Authorised Firm should:
  - a. obtain details of the skills, knowledge and experience of the Employee relevant to the nature and requirements of the role;
  - b. take reasonable steps to verify the relevance, accuracy and authenticity of any information obtained;

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- c. determine, in light of the Employee's relevant skills, knowledge and experience, that the Employee is competent and capable of fulfilling the duties of the role; and
  - d. consider the level of responsibility that the Employee will assume within the Authorised Firm, including whether the Employee will be providing Financial Services to Retail Clients in an interfacing role.
4. An Authorised Firm should also satisfy itself that an Employee:
- a. continues to be competent and capable of performing the role;
  - b. has kept abreast of market, product, technology, legislative and regulatory developments that are relevant to the role, through training or other means; and
  - c. is able to apply his knowledge.
5. Refer to section 2.2.13 of the RPP Sourcebook for criteria for suitability of members of the Governing Body of the Authorised Firm.

### **Conduct**

**5.3.20** An Authorised Person must establish and maintain systems and controls that ensure, as far as reasonably practical, that the Authorised Person and its Employees do not engage in conduct, or facilitate others to engage in conduct, which may constitute:

- (a) market misconduct; or
- (b) a financial crime under any applicable U.A.E. laws.

### **Outsourcing**

**5.3.21** (1) An Authorised Person which outsources any of its functions or activities directly related to Financial Services to service providers (including within its Group) is not relieved of its regulatory obligations and remains responsible for compliance with legislation applicable in the DIFC.

(2) The outsourced function under this Rule shall be deemed as being carried out by the Authorised Person itself.

(3) An Authorised Person which uses such service providers must ensure that it:

- (a) has undertaken due diligence in choosing suitable service providers;
- (b) effectively supervises the outsourced functions or activities; and
- (c) deals effectively with any act or failure to act by the service provider that leads, or might lead, to a breach of any legislation applicable in the DIFC.

**5.3.22** (1) An Authorised Person must inform the DFSA about any material outsourcing arrangements.

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- (2) An Authorised Person which has a material outsourcing arrangement must:
    - (a) establish and maintain comprehensive outsourcing policies, contingency plans and outsourcing risk management programmes;
    - (b) enter into an appropriate and written outsourcing contract; and
    - (c) ensure that the outsourcing arrangements neither reduce its ability to fulfil its obligations to customers and the DFSA, nor hinder supervision of the Authorised Person by the DFSA.
  - (3) An Authorised Person must ensure that the terms of its outsourcing contract with each service provider under a material outsourcing arrangement require the service provider to:
    - (a) provide for the provision of information under section 11.1 in relation to the Authorised Person and access to their business premises; and
    - (b) deal in an open and co-operative way with the DFSA.

**Guidance**

1. An Authorised Person's outsourcing arrangements should include consideration of:
  - a. applicable guiding principles for outsourcing in financial services issued by the Joint Forum; or
  - b. any equivalent principles or regulations the Authorised Person is subject to in its home country jurisdiction.
2. An outsourcing arrangement would be considered to be material if it is a service of such importance that weakness or failure of that service would cast serious doubt on the Authorised Person's continuing ability to remain fit and proper or to comply with DFSA administered Laws and Rules.

**Business continuity and disaster recovery**

- 5.3.23** (1) An Authorised Person must have in place adequate arrangements to ensure that it can continue to function and meet its obligations under the legislation applicable in the DIFC in the event of an unforeseen interruption.
- (2) These arrangements must be kept up to date and regularly tested to ensure their effectiveness.

**Guidance**

1. In considering the adequacy of an Authorised Person's business continuity arrangements, the DFSA will have regard to the Authorised Person's management of the specific risks arising from interruptions to its business including its crisis management and disaster recovery plans.
2. The DFSA expects an Authorised Person to have:
  - a. arrangements which establish and maintain the Authorised Person's physical security and protection for its information systems for business continuity

purposes in the event of planned or unplanned information system interruption or other events that impact on its operations;

- b. considered its primary data centres' and business operations' reliance on infrastructure components, for example transportation, telecommunications networks and utilities and made the necessary arrangements to minimise the risk of interruption to its operations by arranging backup of infrastructure components and service providers; and
- c. considered, in its plans for dealing with a major interruption to its primary data centre or business operations, its alternative data centres' and business operations' reliance on infrastructure components and made the necessary arrangements such that these do not rely on the same infrastructure components and the same service provider as the primary data centres and operations.

### **Records**

**5.3.24** (1) An Authorised Person must make and retain records of matters and dealings, including Accounting Records and corporate governance practices which are the subject of requirements and standards under the legislation applicable in the DIFC.

(2) Such records, however stored, must be capable of reproduction on paper within a reasonable period not exceeding 3 business days.

**5.3.25** Subject to Rule 5.3.26, the records required by Rule 5.3.24 or by any other Rule in this Rulebook must be maintained by the Authorised Person in the English language.

**5.3.26** If an Authorised Person's records relate to business carried on from an establishment in a territory outside the DIFC, an official language of that territory may be used instead of the English language as required by Rule 5.3.25.

**5.3.27** An Authorised Person must have systems and controls to fulfil the Authorised Person's legal and regulatory obligations with respect to adequacy, access, period of retention and security of records.

### **Fraud**

**5.3.28** An Authorised Person must establish and maintain effective systems and controls to:

- (a) deter and prevent suspected fraud against the Authorised Person; and
- (b) report suspected fraud and other financial crimes to the relevant authorities.

**5.3.29** Deleted

### **Corporate Governance**

**5.3.30** (1) An Authorised Person must have a Governing Body and senior management that meet the requirements in (2) and (3) respectively.

(2) The Governing Body of the Authorised Person must:

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- (a) be clearly responsible for setting or approving (or both) the business objectives of the firm and the strategies for achieving those objectives and for providing effective oversight of the management of the firm;
  - (b) comprise an adequate number and mix of individuals who have, among them, the relevant knowledge, skills, expertise and time commitment necessary to effectively carry out the duties and functions of the Governing Body; and
  - (c) have adequate powers and resources, including its own governance practices and procedures, to enable it to discharge those duties and functions effectively.
- (3) The senior management of the Authorised Person must be clearly responsible for the day-to-day management of the firm's business in accordance with the business objectives and strategies approved or set by the Governing Body.

### **Guidance**

#### **Scope of corporate governance**

1. Corporate governance is a framework of systems, policies, procedures and controls through which an entity:
  - a. promotes the sound and prudent management of its business;
  - b. protects the interests of its customers and stakeholders; and
  - c. places clear responsibility for achieving (a) and (b) on the Governing Body and its members and the senior management of the Authorised Person.
2. Many requirements designed to ensure sound corporate governance of companies, such as those relating to shareholder and minority protection and responsibilities of the Board of Directors of companies, are found in the company laws and apply to Authorised Persons. Additional disclosure requirements also apply if they are listed companies. The requirements in this Module are tailored to Authorised Persons and are designed to augment and not to exclude the application of those requirements.
3. Whilst Rule 5.3.30 deals with two aspects of corporate governance, the requirements included in other provisions under sections 5.2 and 5.3 also go to the heart of sound corporate governance by promoting prudent and sound management of the Authorised Person's business in the interest of its customers and stakeholders. These requirements together are designed to promote sound corporate governance practices in Authorised Persons whilst also providing a greater degree of flexibility for Authorised Persons in establishing and implementing a corporate governance framework that are both appropriate and practicable to suit their operations.
4. Stakeholder groups of an Authorised Person, who would benefit from the sound and prudent management of firms, can be varied but generally encompass its owners (shareholders), customers (in the case of an AMI, its members and investors), creditors, counterparties and employees, whose interests may not necessarily be mutually coextensive. A key objective in enhancing corporate governance standards applicable to Authorised Persons is to ensure that firms are soundly and prudently managed, with the primary regard being had to its customers.

#### **Proportionate application to firms depending on the nature of their business**

5. One of the key considerations that underpins how the corporate governance requirements set out in Rule 5.3.30 apply to an Authorised Person is the nature, scale and complexity of the Authorised Person's business, and its organisational structure.
6. While requiring banks, insurers and dealers to have more detailed and complex corporate governance systems and controls, simpler systems and procedures could be required for other firms, depending on the nature and scale of their Financial Services. For example, in the case of certain types of Category 4 Financial Service providers such as arranging or advising only firms, less extensive and simpler corporate governance systems and procedures may be sufficient to meet their corporate governance obligations.
7. For example, an Authorised Person which is a small scale operation with a tightly held ownership structure may not have a Governing Body which comprises members who are fully independent of the firm's business and from each other, nor be sufficiently large to be able to form numerous committees of the Governing Body to undertake various functions such as nomination and remuneration. In such cases, whilst strict adherence to such aspects of best practice would not be required, overall measures as appropriate to achieve the sound and prudent management of the business would be needed. For example, a firm with no regulatory track record would be expected to have additional corporate governance controls in place to ensure the sound and prudent management of its business, such as the appointment of an independent director (who has relevant regulatory experience) to its Governing Body.

#### **Application to Branches and Groups**

8. As part of the flexible and proportionate application of corporate governance standards to firms, whether a firm is a Branch or a subsidiary within a Group is also taken into account. An Authorised Person which is a member of a Group may, instead of developing its own corporate governance policies, adopt group-wide corporate governance standards. However, the Governing Body of the Authorised Person should consider whether those standards are appropriate for the firm, and to the extent possible, make any changes as necessary.
9. In the case of a Branch, corporate governance practices adopted at the head office would generally apply to the Branch and are expected to be adequate. The DFSA considers, as part of its authorisation of a Branch and on-going supervision, the adequacy of regulatory and supervisory arrangements applicable in the home jurisdiction, including a corporate governance framework adopted and implemented by the head office (see section 3.2.15 of the RPP Sourcebook).

#### **Best practice relating to corporate governance**

10. In addition to the considerations noted above, best practice that an Authorised Person may adopt to achieve compliance with the applicable corporate governance standards is set out in Guidance at Appendix 3.1. An Authorised Person may, where the best practice set out in App3.1 is not suited to its particular business or structure, deviate from such best practice or any aspects thereof. The DFSA will expect the Authorised Person to demonstrate to the DFSA, upon request, what the deviations are and why such deviations are considered by the Authorised Person to be appropriate.

#### **Remuneration structure and strategies**

- 5.3.31** (1) The Governing Body of an Authorised Person must ensure that the remuneration structure and strategy of the firm:
- (a) are consistent with the business objectives and strategies and the identified risk parameters within which the firm's business is to be conducted;



- 
- (b) provide for effective alignment of risk outcomes and the roles and functions of the Employees, taking account of:
    - (i) the nature of the roles and functions of the relevant Employees; and
    - (ii) whether the actions of the Employees may expose the firm to unacceptable financial, reputational and other risks;
  - (c) at a minimum, include the members of its Governing Body, the senior management, Persons Undertaking Key Control Functions and any major risk-taking Employees; and
  - (d) are implemented and monitored to ensure that they operate, on an on-going basis, effectively and as intended.
- (2) The Governing Body must provide to the DFSA and relevant stakeholders sufficient information about its remuneration structure and strategies to demonstrate that such structure and strategies meet the requirements in (1) on an on-going basis.
  - (3) For the purposes of this Rule, “major risk-taking Employees” are Employees whose actions have a material impact on the risk exposure of the Authorised Person.

### **Guidance**

#### **Proportionate application to firms depending on the nature of their business**

- 1. Those considerations set out in Guidance items 5 – 7 under Rule 5.3.30 apply equally to the way in which the remuneration structure and strategies related requirement in Rule 5.3.31 is designed to apply to an Authorised Person. Accordingly, whilst most Category 4 firms may have simple arrangements to achieve the outcome of aligning performance outcomes and risks associated with remuneration structure and strategies, banks, insurers and dealers are expected to have more stringent measures to address such risks.

#### **Application to Branches and Groups**

- 2. As part of the flexible and proportionate application of corporate governance standards to firms, whether a firm is a Branch or a subsidiary within a Group is also taken into account. As such, the considerations noted in Guidance items 8 – 9 under Rule 5.3.30 apply equally to the application of the remuneration related requirements for Branches and Groups. For example, where an Authorised Person is a member of a Group, its Governing Body should consider whether the Group wide policies, such as those relating to the Employees covered under the remuneration strategy and the disclosure relating to remuneration made at the Group level are adequate to meet its obligations under Rule 5.3.31.

#### **Best practice relating to corporate governance**

- 3. In addition to the considerations noted above, best practice that an Authorised Person may adopt to promote sound remuneration structure and strategies within the firm is set out as Guidance at Appendix 3.2. Where such best practice or any aspects thereof are not suited to a particular Authorised Person’s business or structure, it may deviate from such best practice. The DFSA will expect the Authorised Person to demonstrate, upon request, what the deviations are and why such deviations are considered appropriate.

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**Disclosure of information relating to remuneration structure and strategy**

4. The information which an Authorised Person provides to the DFSA relating to its remuneration structure and strategies should be included in the annual report or accounting statements. The DFSA expects the annual report of Authorised Persons to include, at a minimum, information relating to:
  - a. the decision making process used to determine the firm-wide remuneration policy (such as by a remuneration committee or an external consultant if any, or by the Governing Body);
  - b. the most important elements of its remuneration structure (such as, in the case of performance based remuneration, the link between pay and performance and the relevant assessment criteria); and
  - c. aggregate quantitative information on remuneration of its Governing Body, the senior management, Persons Undertaking Key Control Functions and any major risk taking Employees.
5. The DFSA may, pursuant to its supervisory powers, require additional information relating to the remuneration structure and strategy of an Authorised Firm to assess whether the general elements relating to remuneration under Rule 5.3.31(1) are met by the firm. Any significant changes to the remuneration structure and strategy should also be notified to the DFSA before being implemented. See Rule 11.10.20.
6. The information included in the annual report is made available to the DFSA and the shareholders, and in the case of a listed company, to the public. The Governing Body of the Authorised Person should also consider what additional information should be included in the annual report. In the case of banks, insurers and dealers, more detailed disclosure of remuneration structure and strategy and its impact on the financial soundness of the firm would be required. When providing disclosure relating to remuneration in its annual report, Authorised Persons should take account of the legal obligations that apply to the firm including the confidentiality of information obligations.

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## 6 GENERAL PROVISIONS

### 6.1 Application

- 6.1.1** (1) Sections 6.1, 6.2, 6.3 and 6.9 apply to every Person to whom any provision in the Rulebook applies.
- (2) Section 6.4 applies to every Authorised Person.
- (3) Sections 6.5 and 6.6 apply to every Authorised Firm, Authorised Market Institution and Person who has submitted an application for authorisation to carry on one or more Financial Services.
- (4) Section 6.7 applies to any Person who has been affected by the activities of the DFSA.
- (5) Section 6.8 applies to the DFSA.
- (6) This chapter does not apply to a Representative Office.

### 6.2 Interpreting the rulebook

#### Guidance

#### Interpretation

1. Every provision in the Rulebook must be interpreted in the light of its purpose. The purpose of any provision is to be gathered first and foremost from the text of the provision in question and its context among other relevant provisions.
2. When this section refers to a provision, this means every type of provision, including Rules and Guidance.
3. Where reference is made in the Rulebook to another provision of the Rulebook or other DIFC legislation, it is a reference to that provision as amended from time to time.
4. Unless the contrary intention appears:
  - a. words in the Rulebook importing the masculine gender include the feminine gender and words importing the feminine gender include the masculine; and
  - b. words in the Rulebook in the singular include the plural and words in the plural include the singular.
5. If a provision in the Rulebook refers to a communication, notice, agreement, or other document 'in writing' then, unless the contrary intention appears, it means in legible form and capable of being reproduced on paper, irrespective of the medium used. Expressions related to writing must be interpreted accordingly.
6. Any reference to 'dollars' or '\$' is a reference to United States Dollars unless the contrary intention appears.
7. References to Articles made throughout the Rulebook are references to Articles in the Regulatory Law 2004 unless otherwise stated.

8. Unless stated otherwise, a day means a calendar day. If an obligation falls on a calendar day which is either a Friday or Saturday or an official State holiday in the DIFC, the obligation must take place on the next calendar day which is a business day.

#### **Defined Terms**

9. Defined terms are identified throughout the Rulebook by the capitalisation of the initial letter of a word or of each word in a phrase and are defined in the Glossary (GLO), however, where a word or phrase is used only in a prudential context in PIB then for convenience purposes it is only defined under Rule 1.2.1 of PIB rather than in GLO. Unless the context otherwise requires, where capitalisation of the initial letter is not used, an expression has its natural meaning.

### **6.3 Emergency**

- 6.3.1** (1) If an Authorised Person is unable to comply with a particular Rule due to an emergency which is outside its or its Employees' control and could not have been avoided by taking all reasonable steps, the Authorised Person will not be in contravention of that Rule to the extent that, in consequence of the emergency, compliance with that Rule is impractical.
- (2) This Rule applies only for so long as the consequences of the emergency continue and the Authorised Person is able demonstrate that it is taking all practical steps to deal with those consequences, to comply with the Rule, and to mitigate losses and potential losses to its customers or users.
- (3) An Authorised Person must notify the DFSA as soon as practical of the emergency and of the steps it is taking and proposes to take to deal with the consequences of the emergency.

#### **Guidance**

1. Procedures for notification to the DFSA are set out in section 11.11.
2. The Rules in section 6.3 do not affect the powers of the DFSA under Article 26 of the Markets Law 2012.

### **6.4 Disclosure of regulatory status**

- 6.4.1** An Authorised Person must not misrepresent its status expressly or by implication.
- 6.4.2** (1) An Authorised Person must take reasonable care to ensure that every key business document which is in connection with the Authorised Person carrying on a Financial Service in or from the DIFC includes one of the disclosures under this Rule.
- (2) A key business document includes letterhead whether issued by post, fax or electronic means, terms of business, client agreements, written promotional materials, business cards, prospectuses and websites but

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does not include compliment slips, account statements or text messages.

- (3) The disclosure required under this Rule is:
  - (a) 'Regulated by the Dubai Financial Services Authority'; or
  - (b) 'Regulated by the DFSA'.
- (4) The DFSA logo must not be reproduced without express written permission from the DFSA and in accordance with any conditions for use.
- (5) Rules 6.4.2(1) to (4) also apply to the operation and administration of an Official List of Securities by an Authorised Market Institution.

## **6.5 Location of offices**

- 6.5.1** (1) Where an Authorised Person is a Body Corporate incorporated in the DIFC, its head office and registered office must be in the DIFC.
- (2) Where an Authorised Person is a partnership established under the Limited Partnership Law 2004 or the General Partnership Law 2006, its head office and registered office must be in the DIFC.
- (3) Where an Authorised Person operates in the DIFC through a Branch:
  - (a) it must have a place of business in the DIFC that is the principal place where it carries on the activities for which it is authorised by the DFSA; and
  - (b) that place of business must be its address in the DIFC to which communications and notices may be addressed.
- (4) An applicant for authorisation to carry on one or more Financial Services must satisfy the DFSA that it will meet the requirements in this Rule when the authorisation is granted.
- (5) In this Rule:
  - (a) "head office" means the principal place where an Authorised Person carries on:
    - (i) the day-to-day management and control of its business, wherever that business may be conducted; and
    - (ii) the activities for which it is authorised by the DFSA; and
  - (b) "registered office" has the meaning given in the Companies Law 2009, Limited Partnership Law 2004 or General Partnership Law 2006, as applicable.

**Guidance**

1. In considering the location of an Authorised Firm's or Authorised Market Institution's head office, the DFSA will have regard to the location of its directors, partners and senior management and to the main location of its day-to-day operational, control, management and administrative arrangements and will judge matters on a case by case basis.
2. An Authorised Firm, Authorised Market Institution or an applicant for authorisation which does not satisfy the DFSA with respect to the location of its offices will, on this point alone not be considered fit and proper or able to satisfy the Licensing Requirements.
3. The DFSA expects all Authorised Persons to have a physical presence, including Employees, in the DIFC. The DFSA does not permit 'brass plate' operations i.e. offices with the name of the entity but with no staff or where no meaningful activity takes place.
4. The Companies Law, Limited Partnership Law and General Partnership Law of the DIFC also require entities to which they apply, to have a registered office in the DIFC, and to carry on their principal business activity in the DIFC.

**6.6 Close links**

- 6.6.1** (1) Where an Authorised Person or a Person who has submitted an application for authorisation to carry on one or more Financial Services has Close Links with another Person, the DFSA must be satisfied that those Close Links are not likely to prevent the effective supervision by the DFSA of the Authorised Person.
- (2) If requested by the DFSA the Authorised Person must submit a Close Links report or notification, in a form specified by the DFSA. This may be requested on an ad hoc or periodic basis.

**Guidance**

1. Procedures for notification to the DFSA are set out in section 11.11.
2. Under the fit and proper test for Authorised Firms and the Licensing Requirements for Authorised Market Institutions, an Authorised Firm or Authorised Market Institution which does not satisfy the DFSA with respect of its Close Links will, on this point alone, not be considered fit and proper or able to satisfy the Licensing Requirements.

**6.7 Complaints against the DFSA****Guidance**

1. A Person who feels he has been adversely affected by the manner in which the DFSA has carried out its functions may make a complaint to the DFSA about its conduct or the conduct of its Employees.
2. A complaint must be in writing and should be addressed to the Chief Executive of the DFSA. The complaint will be dealt with by the DFSA in a timely manner.

## **6.8 Public register**

### **Maintenance and publication**

- 6.8.1** The registers required to be maintained and published by the DFSA pursuant to Article 62 shall be published and maintained in either or both of the following manners:
- (a) by maintaining hard copy registers which are made available for inspection at the premises of the DFSA during normal business hours;  
or
  - (b) by maintaining an electronic version of the registers and making the information from those registers available through the DFSA website.

## **6.9 Communication with the DFSA**

- 6.9.1** An Authorised Person must ensure that any communication with the DFSA is conducted in the English language.

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## 7 AUTHORISATION

### 7.1 Application

- 7.1.1** (1) This chapter applies, subject to (2), to every Person who is:
- (a) an Authorised Firm;
  - (b) an applicant for a Licence to be an Authorised Firm;
  - (c) an Authorised Individual;
  - (d) an applicant for Authorised Individual status; or
  - (e) a Controller of a Person referred to in (a) or (b).
- (2) This chapter does not apply to a Person intending to:
- (a) Operate an Exchange;
  - (b) Operate a Clearing House; or
  - (c) Operate a Representative Office.

#### Guidance

1. This chapter outlines DFSA's authorisation requirements for an Authorised Firm and Authorised Individual.
2. The DFSA's requirements for authorisation of:
  - a. Authorised Market Institutions are covered by the AMI module; and
  - b. Representative Offices are covered by the REP module.
3. The DFSA's requirements for registration of DNFBPs are found in the AML module.
4. This chapter should be read in conjunction with the RPP Sourcebook which sets out DFSA's general regulatory policy and processes. Some additional processes may be outlined in other chapters of this module.
5. Chapter 2 of the RPP Sourcebook sets out DFSA's approach to the authorisation of undertakings and individuals to conduct Financial Services or Licensed Functions, as the case may be.

### 7.2 Application for a Licence

- 7.2.1** A Person, who intends to carry on one or more Financial Services in or from the DIFC must apply to the DFSA for a Licence, in accordance with the Rules in this section.



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- 7.2.2** (1) The DFSA will only consider an application for a Licence from a Person who, subject to (2), (3) and (4), is:
- (a) a Body Corporate; or
  - (b) a Partnership;
- and who is not an Authorised Market Institution.
- (2) If the application is in respect of either or both of the following Financial Services:
- (a) Effecting Contracts of Insurance; or
  - (b) Carrying Out Contracts of Insurance,
- the applicant must be a Body Corporate.
- (3) If the application is in respect of the Financial Service of Accepting Deposits, the applicant must be a Body Corporate or a Partnership.
- (4) If the application is in respect of the Financial Service of Managing a Collective Investment Fund or Acting as the Trustee of a Fund, the applicant must be a Body Corporate.

**Guidance**

Section 2.2.8 of the RPP Sourcebook sets out matters which the DFSA takes into consideration when making an assessment under Rule 7.2.2.

- 7.2.3** A Person licensed by the Emirates Securities and Commodities Authority to trade on an U.A.E. exchange will not be granted a Licence by the DFSA unless that Person has the prior approval of the Emirates Securities and Commodities Authority.

- 7.2.4** A Person applying for a Licence must complete and submit the appropriate form or forms in AFN.

**Guidance**

A Person submitting an application under Rule 7.2.4 is required to:

- a. pay the appropriate application fee as set out in FER; and
- b. include information relating to its Controllers, completed by the relevant Controllers themselves, in the appropriate form in AFN.

**Consideration and assessment of applications**

- 7.2.5** In order to become authorised to carry on one or more Financial Services, the applicant must demonstrate to the satisfaction of the DFSA that it:
- (a) has adequate resources, including financial resources;
  - (b) is fit and proper; and

- 
- (c) has adequate compliance arrangements, including policies and procedures, that will enable it to comply with all the applicable legal requirements, including the Rules.

### **Adequate resources**

**7.2.6** In assessing whether an applicant has adequate resources, the DFSA will consider:

- (a) how the applicant will comply with the applicable provisions of PIB or PIN;
- (b) the provision the applicant makes in respect of any liabilities, including contingent and future liabilities;
- (c) the means by which the applicant and members of its Group manage risk in connection with their business; and
- (d) the rationale for, and basis of, the applicant's business plan.

### **Guidance**

A Credit Rating Agency is not subject to any specific capital requirements in PIB. Instead, it is required, pursuant to Rules 4.2.4 and 7.2.6 to have and maintain adequate financial resources to manage its affairs prudently and soundly.

### **Fitness and propriety**

**7.2.7** (1) In assessing whether an applicant is fit and proper, the DFSA will consider:

- (a) the fitness and propriety of the members of its Governing Body;
- (b) the suitability of the applicant's Controllers or any other Person;
- (c) the impact a Controller might have on the applicant's ability to comply with the applicable requirements;
- (d) the Financial Services concerned;
- (e) the activities of the applicant and any associated risks that those activities pose to the DFSA's objectives described under Article 8(3) of the Regulatory Law 2004;
- (f) whether the applicant's affairs will be conducted and managed in a sound and prudent manner;
- (g) any matter which may harm or may have harmed the integrity or the reputation of the DFSA or DIFC; and
- (h) any other relevant matters.

(2) The DFSA will, in assessing the matters in (1), consider the cumulative effect of factors which, if taken individually, may be

regarded as insufficient to give reasonable cause to doubt the fitness and propriety of an applicant.

### **Guidance**

Section 2.2 of the RPP Sourcebook sets out matters which the DFSA takes into consideration when making an assessment under Rule 7.2.7.

### **Compliance arrangements**

**7.2.8** In assessing whether an applicant has adequate compliance arrangements, the DFSA will consider whether it has:

- (a) clear and comprehensive policies and procedures relating to compliance with all applicable legal requirements including the Rules;
- (b) adequate means to implement those policies and procedures and monitor that they are operating effectively and as intended.

**7.2.9** In assessing an application for a Licence, the DFSA may:

- (a) make any enquiries which it considers appropriate, including enquiries independent of the applicant;
- (b) require the applicant to provide additional information;
- (c) require the applicant to have information on how it intends to ensure compliance with a particular Rule;
- (d) require any information provided by the applicant to be verified in any way that the DFSA specifies; and
- (e) take into account any information which it considers relevant.

**7.2.10** (1) In assessing an application for a Licence the DFSA may, by means of written notice, indicate the legal form that the applicant may adopt to enable authorisation to be granted.

- (2) Where the DFSA thinks it appropriate it may treat an application made by one legal form or Person as having been made by the new legal form or Person.

**7.2.11** In assessing an application for a Licence authorising the applicant to Operate an Alternative Trading System, the DFSA will have regard to, but is not limited to, considering the following matters:

- (a) whether the establishment of an Alternative Trading System is, or is likely to be, in the interests of the Financial Services and Markets industry;
- (b) whether the Alternative Trading System will or is likely to lead to more efficient price discovery of, or deepen liquidity in, an Investment; and
- (c) whether there is any risk of market fragmentation, loss of liquidity or inefficiency in price discovery as a result of the proposed Alternative Trading System operation.

## 7.3 Applications for endorsements

### Carrying on service with or for a Retail Client

- 7.3.1** The following requirements must be met by an Authorised Firm for the grant of an endorsement to carry on a Financial Service with or for a Retail Client:
- (a) the applicant must have adequate systems and controls for carrying on Financial Services with or for a Retail Client;
  - (b) the applicant must have adequate systems and controls (including policies and procedures) to ensure compliance with the requirements in COB relevant to Retail Clients;
  - (c) the applicant must have adequate systems and controls to ensure that its Employees remain competent and capable to perform the functions which are assigned to them, in particular, functions that involve dealing with Retail Clients; and
  - (d) the applicant must have adequate Complaint handling policies and procedures.

### Acting as a Trade Repository

- 7.3.2** The requirements in App 5 must be met by an Authorised Firm for the grant of an endorsement to act as a Trade Repository.

## 7.4 Licensed Functions and Authorised individuals

- 7.4.1** (1) Pursuant to Article 43 of the Regulatory Law 2004, the functions specified in Rules 7.4.2 to 7.4.9 are Licensed Functions.
- (2) A Licensed Function shall not include a function performed by a registered insolvency practitioner (subject to the restrictions defined within Article 88 of the Insolvency Law 2009) if the practitioner is:
- (a) acting as a nominee in relation to a company voluntary arrangement within the meaning of Article 8 of the Insolvency Law 2009;
  - (b) appointed as a receiver or administrative receiver within the meaning of Article 14 of the Insolvency Law 2009;
  - (c) appointed as a liquidator in relation to a members' voluntary winding up within the meaning of Article 32 of the Insolvency Law 2009;
  - (d) appointed as a liquidator in relation to a creditors' voluntary winding up within the meaning of Article 32 of the Insolvency Law 2009; or

- 
- (e) appointed as a liquidator or provisional liquidator in relation to a compulsory winding up within the meanings of Article 58 and 59 of the Insolvency Law 2009.
- (3) A Licensed Function shall not include a function performed by an individual appointed to act as manager of the business of an Authorised Firm or Authorised Market Institution as directed by the DFSA under Article 88 of the Regulatory Law 2004.

#### **Senior Executive Officer**

**7.4.2** The Senior Executive Officer function is carried out by an individual who:

- (a) has, either alone or jointly with other Authorised Individuals, ultimate responsibility for the day-to-day management, supervision and control of one or more (or all) parts of an Authorised Firm's Financial Services carried on in or from the DIFC; and
- (b) is a Director, Partner or Senior Manager of the Authorised Firm.

#### **Licensed Director**

**7.4.3** Subject to Rule 7.5.4, the Licensed Director function is carried out by an individual who is a Director of an Authorised Firm which is a Body Corporate.

#### **Licensed Partner**

**7.4.4** The Licensed Partner function is carried out, in the case of an Authorised Firm which is a Partnership or Limited Liability Partnership, by an individual specified in Rule 7.5.5.

#### **Finance Officer**

**7.4.5** The Finance Officer function is carried out by an individual who is a Director, Partner or Senior Manager of an Authorised Firm who has responsibility for the Authorised Firm's compliance with the applicable Rules in PIN or PIB.

#### **Compliance Officer**

**7.4.6** The Compliance Officer function is carried out by an individual who is a Director, Partner or Senior Manager of an Authorised Firm who has responsibility for compliance matters in relation to the Authorised Firm's Financial Services.

#### **Senior Manager**

**7.4.7** The Senior Manager function is carried out by an individual who is responsible either alone or jointly with other individuals for the management, supervision or control of one or more parts of an Authorised Firm's Financial Services who is:

- (a) an Employee of the Authorised Firm; and
- (b) not a Director or Partner of the Authorised Firm.

**Guidance**

In respect of a Fund, the DFSA would expect the Fund Manager to appoint at least one individual other than the Senior Executive Officer to carry out Senior Manager functions in relation to the Fund such as managing operational risk and other internal controls.

**Money Laundering Reporting Officer**

- 7.4.8** The Money Laundering Reporting Officer function is carried out by an individual who is a Director, Partner or Senior Manager of an Authorised Firm and who has responsibility for the implementation of an Authorised Firm's anti money laundering policies, procedures, systems and controls and day to day oversight of its compliance with the Rules in AML and any relevant anti money laundering legislation applicable in the DIFC.

**Responsible Officer**

- 7.4.9** The Responsible Officer function is carried out by an individual who:
- (a) has significant responsibility for the management of one or more aspects of an Authorised Firm's affairs;
  - (b) exercises a significant influence on the firm as a result of (a); and
  - (c) is not an Employee of the Authorised Firm.

**Guidance**

- 1. The Licensed Function of Responsible Officer applies to an individual employed by a Controller or other Group company who is not an Employee of the Authorised Firm, but who has significant responsibility for, or for exercising a significant influence on, the management of one or more aspects of the Authorised Firm's business.
  - 2. Examples of a Responsible Officer might include an individual responsible for the overall strategic direction of an Authorised Firm or a regional manager to whom a Senior Executive Officer reports and from whom he takes direction.
- 7.4.10** An Authorised Individual may perform one or more Licensed Functions for one or more Authorised Firms.

**Guidance**

- 1. In considering whether to grant an individual Authorised Individual status with respect to more than one Authorised Firm, the DFSA will consider each Licensed Function to be carried out and the allocation of responsibility for that individual among the Authorised Firms.
- 2. In the above situation the DFSA will need to be satisfied that the individual will be able to carry out his role effectively, is fit and proper to do so, and that there are no conflicts of interest or that any actual or potential conflicts of interest are appropriately managed.

## **7.5 Mandatory appointments**

- 7.5.1** (1) An Authorised Firm must, subject to (2), make the following appointments and ensure that they are held by one or more Authorised Individuals at all times:
- (a) Senior Executive Officer;
  - (b) Finance Officer;
  - (c) Compliance Officer; and
  - (d) Money Laundering Reporting Officer.
- (2) An Authorised Firm which is a Credit Rating Agency:
- (a) need not make the appointment referred to in (1)(b) and (d); and
  - (b) must ensure that the appointments referred to in 1(a) and (c) are held by separate Authorised Individuals at all times.

### **Guidance**

1. This Guidance addresses a range of circumstances:
  - a. one individual performing more than one function in a single firm, as contemplated in Rule 7.5.1;
  - b. more than one individual performing one function in a single firm, not addressed by that Rule;
  - c. one individual performing a single function in more than one firm, also not addressed by that Rule.
2. The DFSA will only authorise an individual to perform more than one Licensed Function or combine Licensed Functions with other functions where it is satisfied that the individual is fit and proper to perform each Licensed Function or combination of Licensed Functions.
3. In the above situation the DFSA will need to be satisfied that the individual will be able to carry out his role effectively, is fit and proper to do so, and that there are no conflicts of interest or that any actual or potential conflicts of interest are appropriately managed.
4. Notwithstanding this Rule, an Authorised Firm would generally be expected to separate the roles of Compliance Officer and Senior Executive Officer. In addition, the roles of Compliance Officer, Finance Officer and Money Laundering Reporting Officer would not be expected to be combined with any other functions unless appropriate monitoring and control arrangements independent of the individual concerned will be implemented by the Authorised Firm. This may be possible in the case of a Branch, where monitoring and controlling of the individual (carrying out more than one role in the Branch) is conducted from the firm's home state by an appropriate individual for each of the relevant Licensed Functions. However, it is recognised that, on a case by case basis, there may be exceptional circumstances in which this may not always be practical or possible.
5. In what it considers to be exceptional circumstances, the DFSA may register more than one individual to perform the Licensed Function of Compliance Officer in respect of different internal business divisions within a large Authorised Firm. In this

regard the DFSA may consider, amongst other things, the nature, scale and complexity of the activities of the firm, the clarity of demarcation between areas of responsibility, the potential for gaps in responsibility, and processes of communication with the DFSA.

6. The DFSA may also register an individual as the Compliance Officer for more than one Authorised Firm. The DFSA will only do this where it is satisfied that the individual is able to carry out his functions effectively in each firm taking into consideration factors such as the amount and nature of business conducted by the firms. Each Authorised Firm has a duty under GEN 5 to monitor its compliance arrangements to ensure, as far as reasonably practicable, that it complies with all legislation applicable in the DIFC.

**7.5.2** The Authorised Individuals referred to in Rule 7.5.1(a), (c) and (d) must be resident in the U.A.E.

**Guidance**

1. In appropriate circumstances, the DFSA may waive the requirement for a Compliance Officer or MLRO to be resident in the UAE. In determining whether to grant a waiver, the DFSA will consider a range of factors on a case by case basis focused on whether the firm can demonstrate that it has appropriate compliance arrangements (see GEN section 5.3). These factors may include, but are not limited to: the nature, scale and complexity of the activities of the firm; the ability of a remote officer to carry out his functions in differing time zones and a differing working week; the size, resourcing and capabilities of a remote compliance function; the ability of a remote officer to liaise and communicate readily with the DFSA; and the competency and capability of a remote officer and whether the remote officer is able effectively to undertake or supervise regular compliance monitoring and keep up to date with applicable Rules.
2. The DFSA will also take into account factors such as the relevant regulatory experience of the proposed Authorised Individual and whether the applicant firm has previously been subject to financial services regulation.

**7.5.3** In the case of a Trust Service Provider, the Authorised Individuals referred to in Rule 7.5.1 (c) and (d) must not act also as trustees on behalf of the Trust Service Provider.

**7.5.4** An Authorised Firm which is a Body Corporate (other than a Limited Liability Partnership) whose head office and registered office are located in the DIFC, must register with the DFSA all of its Directors as Licensed Directors.

**7.5.5** (1) In the case of an Authorised Firm which is a partnership established under either the DIFC General Partnership Law or Limited Liability Partnership Law, the Licensed Partner function must be carried out by:

- (a) each individual Partner who must be registered as a Licensed Partner; and
- (b) in the case of a Partner which is a Body Corporate, by an individual nominated by that Body Corporate and registered as a Licensed Partner to act on its behalf.

(2) In the case of an Authorised Firm which is a partnership established under the DIFC Limited Partnership Law, the Licensed Partner function must be carried out by:



- (a) each individual General Partner who must be registered as a Licensed Partner; and
- (b) in the case of a General Partner which is a Body Corporate, by an individual nominated by that Body Corporate and registered as a Licensed Partner to act on its behalf.

**Guidance**

An Authorised Firm that is a Branch is not required to register its Directors as Licensed Directors under Rule 7.5.4 or its Partners as a Licensed Partner under Rule 7.5.5.

## **7.6 Application for Authorised Individual status**

**7.6.1** In submitting applications for Authorised Individual status, both the individual and Authorised Firm must complete and submit the appropriate form in AFN.

**7.6.2** When an individual and an Authorised Firm apply to the DFSA for that individual to be an Authorised Individual, the individual must satisfy the DFSA that he is a fit and proper person to carry out the role.

**Consideration and assessment of applications**

**7.6.3** An individual will only be authorised to carry on one or more Licensed Functions if the DFSA is satisfied that the individual is fit and proper to be an Authorised Individual. In making this assessment, the DFSA will consider:

- (a) the individual's integrity;
- (b) the individual's competence and capability;
- (c) the individual's financial soundness;
- (d) the individual's proposed role within the Authorised Firm; and
- (e) any other relevant matters.

**Guidance**

Section 2.3 of the RPP Sourcebook sets out matters which the DFSA takes into consideration when making an assessment of the kind under Rule 7.6.3.

**7.6.4** In Rule 7.6.3, an individual may not be considered as fit and proper where:

- (a) he is bankrupt;
- (b) he has been convicted of a serious criminal offence; or
- (c) he is incapable, through mental or physical incapacity, of managing his affairs.

**7.6.5** In assessing an application for Authorised Individual status, the DFSA may:

- (a) make any enquiries which it considers appropriate, including enquiries independent of the applicant;

- (b) require the individual or Authorised Firm to provide additional information;
- (c) require any information provided by the individual or Authorised Firm to be verified in any way specified by the DFSA; and
- (d) take into account any information which it considers appropriate.

**7.6.6** An Authorised Firm must not permit an individual to perform a Licensed Function on its behalf, except as permitted by section 11.6, unless that individual is an Authorised Individual who has been assessed by the Authorised Firm as competent to perform that Licensed Function in accordance with Rule 7.6.7.

**7.6.7** In assessing the competence of an individual, an Authorised Firm must:

- (a) obtain details of the knowledge and skills of the individual in relation to the knowledge and skills required for the role;
- (b) take reasonable steps to verify the relevance, accuracy and authenticity of any information acquired;
- (c) determine whether the individual holds any relevant qualifications with respect to the Licensed Function or Licensed Functions performed, or proposed to be to performed, within the Authorised Firm;
- (d) determine the individual's relevant experience; and
- (e) determine the individual's knowledge of the Authorised Firm's relevant systems and procedures with respect to the type of business that is to be, or is being, conducted by the individual on behalf of the Authorised Firm.

**7.6.8** An Authorised Firm must be satisfied that an Authorised Individual:

- (a) continues to be competent in his proposed role;
- (b) has kept abreast of relevant market, product, technology, legislative and regulatory developments; and
- (c) is able to apply his knowledge.

**7.6.9** The Authorised Firm is responsible for the conduct of its Authorised Individuals and for ensuring that they remain fit and proper to carry out their role.

**Guidance**

In considering whether an Authorised Individual remains fit and proper, the Authorised Firm should consider those matters in section 3.2 of the RPP Sourcebook and the notification requirements in section 11.10 of this module.

**7.6.10** Before lodging an application with the DFSA, an Authorised Firm must make reasonable enquiries as to an individual's fitness and propriety to carry out a Licensed Function.

**7.6.11** An Authorised Firm must not lodge an application if it has reasonable grounds to believe that the individual is not fit and proper to carry out the Licensed Function.

#### **Systems and controls**

**7.6.12** An Authorised Firm must have appropriate arrangements in place to ensure that an individual assessed as being competent under Rule 7.6.6 maintains his competence.

**7.6.13** An Authorised Firm must ensure, in the case of individuals seeking to perform the Licensed Functions of Senior Executive Officer, Money Laundering Reporting Officer, or Compliance Officer, that such individuals are able to demonstrate sufficient knowledge of relevant anti money laundering requirements.

#### **Guidance**

In considering whether individuals have sufficient knowledge of relevant anti money laundering requirements, the DFSA may be satisfied where the individual can demonstrate receipt of appropriate training specifically relevant to such requirements.

**7.6.14** An Authorised Firm must establish and maintain systems and controls which will enable it to comply with Rules 7.6.6 to 7.6.9.

- 7.6.15** (1) An Authorised Firm must keep records of the assessment process undertaken for each individual under this chapter.
- (2) These records must be kept for a minimum of six years from the date of the assessment.

## **8 ACCOUNTING AND AUDITING**

### **8.1 Application**

**8.1.1** This chapter applies to every Authorised Person other than a Representative Office.

**8.1.2** Pursuant to Article 99(5) of the Regulatory Law, an Authorised Person which is a Representative Office is hereby exempt from the requirements in Article 99 of the Regulatory Law relating to the appointment of an Auditor.

#### **Guidance**

The DFSA has exercised its power under Article 99(5) of the Regulatory Law to exempt an Authorised Person which is a Representative Office from the requirements in that Article. As a result, in accordance with the terms of Article 99(5), the Representative Office also does not need to comply with other requirements in chapters 4, 5 and 6 of Part 8 of that Law.

### **8.2 Financial statements and financial reporting standards**

**8.2.1** An Authorised Person must prepare financial statements for each financial year of the Authorised Person.

#### **Guidance**

1. Chapter 4 of the Islamic Finance Rules (IFR) sets out specific disclosures an Authorised Person must include in its financial statements when carrying on Islamic Financial Business.
2. The financial statements prepared by an Authorised Person which is a Branch may be the financial statements prepared for the Authorised Person's head office.

**8.2.2** An Authorised Person must, except as provided under Rule 8.2.3, prepare and maintain all financial statements in accordance with the International Financial Reporting Standards (IFRS).

**8.2.3** (1) An Authorised Firm specified in (2) may prepare and maintain its financial statements in accordance with IFRS for Small and Medium-Sized Entities (SMEs) where that standard applies to it.

(2) Authorised Firms specified for the purposes of (1) are:

- (a) an Authorised Firm in Category 3B, Category 3C or Category 4, which does not hold or control Client Assets or Insurance Monies; and
- (b) an Authorised Firm in Category 4 which is not authorised under its Licence to carry on the Financial Service of Operating an Alternative Trading System.

(3) The DFSA may by written notice direct that a particular Authorised Firm or a specified class of Authorised Firm specified in (2) must

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prepare and maintain financial statements in accordance with IFRS rather than IFRS for Small and Medium Sized Entities.

- (4) The DFSA may by written notice vary or revoke a direction under (3).
- (5) The procedures in Schedule 3 to the Regulatory Law apply to a decision of the DFSA to give a direction under (3) to a particular Authorised Firm.
- (6) If the DFSA decides to give a direction under (3) to a particular Authorised Firm, the Authorised Firm may refer the matter to the FMT for review.

**8.2.4** An Authorised Person must:

- (a) if it is a Body Corporate, have its financial statements approved by the Directors and signed on their behalf by at least one of the Directors; or
- (b) if it is a Partnership, have its financial statements approved by the Partners and signed on their behalf by at least one of the Partners.

### **8.3 Accounting records and regulatory returns**

**8.3.1** Every Authorised Person must keep Accounting Records which are sufficient to show and explain transactions and are such as to:

- (a) be capable of disclosing the financial position of the Authorised Person on an ongoing basis; and
- (b) record the financial position of the Authorised Person as at its financial year end.

**8.3.2** Accounting Records must be maintained by an Authorised Person such as to enable its Governing Body to ensure that any financial statements prepared by the Authorised Person comply with the legislation applicable in the DIFC.

**8.3.3** An Authorised Person's Accounting Records must be:

- (a) retained by the Authorised Person for at least six years from the date to which they relate;
- (b) at all reasonable times, open to inspection by the DFSA or the Auditor of the Authorised Person; and
- (c) if requested by the DFSA capable of reproduction, within a reasonable period not exceeding 3 business days, in hard copy and in English.

**8.3.4** All regulatory returns prepared by the Authorised Firm must be prepared and submitted in accordance with the requirements set out in PIB or PIN as applicable.

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### Financial years

- 8.3.5** (1) The first financial year of an Authorised Firm which is a Domestic Firm starts on the day on which it is incorporated and lasts for such period not exceeding 18 months as may be determined by its Directors or Partners.
- (2) An Authorised Firm which is a Domestic Firm must as soon as practicable after it has made a determination under (1) notify the DFSA of the end date determined for its first financial year.
- (3) The second and any subsequent financial year of an Authorised Firm which is a Domestic Firm shall, except as provided in Rule 8.3.6, start at the end of the previous financial year and shall last for 12 months or such other period which is within 7 days either shorter or longer than 12 months as may be determined by its Directors or Partners.
- 8.3.6** (1) An Authorised Firm which is a Domestic Firm may only change its financial year end from a period provided for under Rule 8.3.5(3) with the DFSA's prior consent.
- (2) The application for consent must be in writing and include the reasons for the change.
- (3) The DFSA may require the Authorised Firm to obtain written confirmation from its Auditor that the change of financial year end would not result in any significant distortion of the financial position of the Authorised Firm.
- 8.3.7** If an Authorised Firm is not a Domestic Firm and intends to change its financial year, it must provide the DFSA with reasonable advance notice prior to the change taking effect.

## 8.4 Appointment and termination of Auditors

- 8.4.1** An Authorised Person must:
- (a) notify the DFSA of the appointment of an Auditor by completing and submitting the appropriate form in AFN;
- (b) prior to the appointment of the Auditor, take reasonable steps to ensure that the Auditor has the required skills, resources and experience to audit the business of the Authorised Person for which the auditor has been appointed; and
- (c) if it is a Domestic Firm, ensure that the Auditor, at the time of appointment and for the duration of the engagement, is registered with the DFSA as a Registered Auditor.
- 8.4.2** An Authorised Person must notify the DFSA immediately if the appointment of the Auditor is or is about to be terminated, or on the resignation of its Auditor, by completing and submitting the appropriate form in AFN.

**8.4.3** An Authorised Person must appoint an Auditor to fill any vacancy in the office of Auditor and ensure that the replacement Auditor can take up office at the time the vacancy arises or as soon as reasonably practicable.

**8.4.4** (1) An Authorised Person must take reasonable steps to ensure that the Auditor and the relevant audit staff of the Auditor are independent of and not subject to any conflict of interest with respect to the Authorised Person.

(2) An Authorised Person must notify the DFSA if it becomes aware, or has reason to believe, that the Auditor or the relevant audit staff of the auditor are no longer independent of the Authorised Person, or have a conflict of interest which may affect their judgement in respect of the Authorised Person.

**Guidance**

1. An Authorised Person should consider whether there is any financial or personal relationship between it or any of its relevant Employees and the Auditor or any of the relevant Employees of the Auditor that may affect the judgement of the Auditor when conducting an audit of the Authorised Person or complying with all its legal obligations, including the Regulatory Law, AUD, AML and other relevant modules of the DFSA Rulebook.
2. An Authorised Person should consider rotating the appointed relevant staff of the Auditor on a regular basis to ensure that the relevant staff of the Auditor remain independent.

**8.4.5** If requested by the DFSA, an Authorised Person which carries on Financial Services through a Branch must provide the DFSA with information on its appointed or proposed Auditor with regard to the Auditor's, skills, experience and independence.

**8.5 Co-operation with Auditors**

**8.5.1** An Authorised Person must take reasonable steps to ensure that it and its Employees:

- (a) provide any information to its Auditor that its Auditor reasonably requires, or is entitled to receive as Auditor;
- (b) give the Auditor right of access at all reasonable times to relevant records and information within its possession;
- (c) allow the Auditor to make copies of any records or information referred to in (b);
- (d) do not interfere with the Auditor's ability to discharge its duties;
- (e) report to the Auditor any matter which may significantly affect the financial position of the Authorised Person; and
- (f) provide such other assistance as the Auditor may reasonably request it to provide.

## **8.6 Audit reports**

**8.6.1** An Authorised Person must, in writing, require its Auditor to:

- (a) conduct an audit of and produce a Financial Statement Auditor's Report on the Authorised Person's financial statements in accordance with the International Standards on Auditing;
- (b) produce a Regulatory Returns Auditor's Report in accordance with the Rules in AUD App1 as relevant;
- (c) produce, if the Authorised Firm is permitted to control or hold Client Money, a Client Money Auditor's Report in accordance with the Rules in AUD App2;
- (d) produce, if the Authorised Firm is permitted to control or hold Insurance Monies, an Insurance Monies Auditor's Report in accordance with the Rules in AUD App3; and
- (e) produce, if the Authorised Firm is permitted to hold or control Client Investments, Arrange Custody or Provide Custody in or from the DIFC, a Safe Custody Auditor's Report in respect of such business as applicable, in accordance with the Rules in AUD App4.

### **Guidance**

For the purposes of Rule 8.6.1(a) the financial statements of an Authorised Person which is a Branch may be the financial statements prepared for the Authorised Person's head office.

**8.6.2** An Authorised Person must submit any reports produced by its Auditor that are required by this chapter to the DFSA within four months of the Authorised Person's financial year end.

- 8.6.3** (1) An Authorised Person must, subject to (2), upon request by any Person, provide a copy of its most recent audited financial statements, together with the Financial Statement Auditor's Report to the Person. If the copy is made available in printed form, the Authorised Person may make a charge to cover reasonable costs incurred in providing the copy.
- (2) The requirement in (1) does not apply to an Authorised Firm which:
- (a) is in Category 3B, Category 3C or Category 4; and
  - (b) does not hold or control Client Assets or Insurance Monies.

### **Guidance**

An Authorised Person should be aware that there may be other legislation applicable to it that may require the Authorised Person to provide access to all or part of its financial statements.



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## 9 COMPLAINTS HANDLING AND DISPUTE RESOLUTION

### 9.1 Application

**9.1.1** This chapter applies to every Authorised Firm, other than a Representative Office and a Credit Rating Agency, carrying on a Financial Service in or from the DIFC as follows:

- (a) Section 9.2 applies to an Authorised Firm carrying on a Financial Service with or for a Retail Client; and
- (b) Section 9.3 applies to an Authorised Firm carrying on a Financial Service with or for a Professional Client.

### 9.2 Complaints handling procedures for Retail Clients

#### Written Complaints handling procedures

**9.2.1** An Authorised Firm must have adequate policies and procedures in place for the investigation and resolution of Complaints made against it by Retail Clients, and the manner of redress (including compensation for acts or omissions of the Authorised Firm).

**9.2.2** The policies and procedures for handling Complaints must be in writing and provide that Complaints are handled fairly, consistently and promptly.

#### Guidance

1. In establishing adequate Complaints handling policies and procedures, an Authorised Firm should have regard to:
  - a. the nature, scale and complexity of its business; and
  - b. its size and organisational structure.
2. In handling Complaints, an Authorised Firm should consider its obligations under the Data Protection Law 2007.
3. An Authorised Firm should consider its obligations under GEN Rule 5.3.19 and accompanying guidance.
4. The DFSA considers 60 days from the receipt of a Complaint to be an appropriate period in which an Authorised Firm should be able to resolve most Complaints.

**9.2.3** On receipt of a Complaint, an Authorised Firm must:

- (a) acknowledge the Complaint promptly in writing;
- (b) provide the complainant with:
  - (i) the contact details of any individual responsible for handling the Complaint;

- (ii) key particulars of the Authorised Firm's Complaints handling procedures; and
  - (iii) a statement that a copy of the procedures is available free of charge upon request in accordance with GEN Rule 9.2.11; and
- (c) consider the subject matter of the Complaint.

**9.2.4** Where appropriate, an Authorised Firm must update the complainant on the progress of the handling of the Complaint.

**Guidance**

1. The DFSA considers 7 days to be an adequate period in which an Authorised Firm should be able to acknowledge most Complaints.
2. The DFSA expects an update to be provided to the complainant in circumstances where the resolution of the Complaint is taking longer than 30 days.

**Resolution of Complaints**

**9.2.5** Upon conclusion of an investigation of a Complaint, an Authorised Firm must promptly:

- (a) advise the complainant in writing of the resolution of the Complaint;
- (b) provide the complainant with clear terms of redress, if applicable; and
- (c) comply with the terms of redress if accepted by the complainant.

**9.2.6** If the complainant is not satisfied with the terms of redress offered by the Authorised Firm, the Authorised Firm must inform the complainant of other avenues, if any, for resolution of the Complaint and provide him with the appropriate contact details upon request.

**Guidance**

Other avenues for resolution of a Complaint may include an external dispute resolution scheme, arbitration or the DIFC Court.

**Employees handling Complaints**

**9.2.7** Where appropriate, taking into account the nature, scale and complexity of an Authorised Firm's business, an Authorised Firm must ensure that any individual handling the Complaint is not or was not involved in the conduct of the Financial Service about which the Complaint has been made, and is able to handle the Complaint in a fair and impartial manner.

**9.2.8** An Authorised Firm must ensure that any individual responsible for handling the Complaint has sufficient authority to resolve the Complaint or has access to individuals with the necessary authority.

### **Complaints involving other Authorised Firms or Regulated Financial Institutions**

- 9.2.9** If an Authorised Firm considers that another Authorised Firm or a Regulated Financial Institution is entirely or partly responsible for the subject matter of a Complaint, it may refer the Complaint, or the relevant part of it, to the other Authorised Firm or Regulated Financial Institution in accordance with Rule 9.2.10.
- 9.2.10** To refer a Complaint, an Authorised Firm must:
- (a) inform the complainant promptly and in writing that it would like to refer the Complaint, either entirely or in part, to another Authorised Firm or Regulated Financial Institution, and obtain the written consent of the complainant to do so;
  - (b) if the complainant consents to the referral of the Complaint, refer the Complaint to the other Authorised Firm or Regulated Financial Institution promptly and in writing;
  - (c) inform the complainant promptly and in writing that the Complaint has been referred and include adequate contact details of any individual at the other Authorised Firm or Regulated Financial Institution responsible for handling the Complaint; and
  - (d) continue to deal with any part of the Complaint not referred to the other Authorised Firm or Regulated Financial Institution, in accordance with this chapter.

#### **Guidance**

The referral of a Complaint may involve the transfer of Personal Data, as defined under the Data Protection Law 2007, DIFC Law No 1 of 2007. In this respect, an Authorised Firm should consider its obligations under the Data Protection Law 2007.

#### **Retail Client awareness**

- 9.2.11** An Authorised Firm must ensure that a copy of its Complaints handling procedures is available free of charge to any Retail Client upon request.

#### **Retention of records**

- 9.2.12** An Authorised Firm must maintain a record of all Complaints made against it for a minimum period of six years from the date of receipt of a Complaint.
- 9.2.13** This record must contain the name of the complainant, the substance of the Complaint, a record of the Authorised Firm's response, and any other relevant correspondence or records, and the action taken by the Authorised Firm to resolve each Complaint.

#### **Systems and controls**

- 9.2.14** In accordance with GEN Rules 5.3.4 and 5.3.5, an Authorised Firm must put in place adequate systems and controls in order for it to identify and remedy any recurring or systemic problems identified from Complaints.

**Guidance**

An Authorised Firm should consider whether it is required to notify the DFSA, pursuant to Rule 11.10.7, of any recurring or systemic problems identified from Complaints.

**Outsourcing****Guidance**

An Authorised Firm may outsource the administration of its Complaints handling procedures in accordance with GEN Rule 5.3.21.

**9.3 Complaints recording procedures for Professional Clients**

**9.3.1** An Authorised Firm must have adequate policies and procedures in place for the recording of Complaints made against it by Professional Clients.

**9.3.2** An Authorised Firm must maintain a record of any Complaint made against it for a minimum period of six years from the date of receipt of the Complaint.

**Guidance**

Depending on the nature, scale and complexity of its business, it may be appropriate for an Authorised Firm to have in place a suitable Complaints handling procedure for Professional Clients in order to ensure that such Complaints are properly handled and remedial action is taken promptly. Such Complaints handling procedures would be expected to include provisions about the independence of staff investigating the Complaint and bringing the matter to the attention of senior management.

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## 10 TRANSITIONAL RULES

### 10.1 Application

**10.1.1** This chapter applies as follows:

- (a) Rule 10.1.2 and sections 10.2, 10.3, 10.4 and 10.5 apply to every Person to whom a provision of the Previous Regime applied;
- (b) Rule 10.6.2 applies to a Person who has been authorised to carry on a Financial Service in respect of a Designated Investment as defined in Rule 10.6.1;
- (c) Rule 10.6.3 applies to a Reporting Entity which has its Designated Investments included in an Official List of Securities of an Authorised Market Institution and to an Authorised Market Institution where its Official List of Securities includes Designated Investments as defined in Rule 10.6.1;
- (d) Rule 10.7.2 applies to every Authorised Person in respect of the corporate governance requirement in Rule 5.3.30 and the remuneration related requirement Rule 5.3.31;
- (e) Rule 10.8.1 applies to an Authorised Person who has been authorised to conduct Islamic Financial Business as an Islamic Financial Institution or to operate an Islamic Window; and
- (f) Section 10.9 applies to a Person who is the subject of a notice issued by the DFSA under Article 90 or 91 of the Regulatory Law 2004 prior to the date on which this rule came into force.

**10.1.2** For the purposes of the provisions referred to in Rule 10.1.1(a):

“Commencement Date” means 1 July 2008, the date on which the Current Regime came into force under rule-making instruments No 56 and No.58.

“Current Regime” means the Rules in force on the Commencement Date;

“Previous Regime” means the Rules that were in force immediately prior to the Commencement Date;

“Transitional Rules” mean the Rules in this chapter; and

any specific reference to a module is a reference to that module under the Current Regime, unless otherwise specified.

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## 10.2 General

- 10.2.1** An Authorised Person must continue to maintain any records required to be maintained under the Previous Regime as if any such requirements continued to apply.

## 10.3 Specific relief – COB Module

- 10.3.1** An Authorised Firm, when carrying on Investment Business, Accepting Deposits, Providing Credit or Providing Trust Services under chapters 3 to 6 of COB:

- (a) may treat a Person as a Professional Client without having to undertake the determination referred to in COB Rule 2.3.1(1) where the Authorised Firm:
  - (i) had determined that Person to be a Client under the Previous Regime, including where such determination had been made under a waiver or modification in force under the Previous Regime; and
  - (ii) carries on the same Financial Service it had carried on with or for that Person under the Previous Regime;
- (b) may treat a Person as a Market Counterparty without having to comply with the requirements in COB Rule 2.3.4(1) if that Person was so treated by the firm under the Previous Regime;
- (c) may, for a period of not more than 6 months after that Commencement Date, distribute marketing material that was produced in accordance with the requirements under the Previous Regime to a Person:
  - (i) to whom it could have distributed such material under the Previous Regime; or
  - (ii) who is a Professional Client pursuant to this Rule or pursuant to COB chapter 2; and
- (d) may carry on a Financial Service with or for a Person without having to comply with COB Rule 3.3.2(1) where the Authorised Firm carries on the same Financial Service it carried on with or for that Person under the Previous Regime and there is a client agreement in force in respect of that service.

- 10.3.2** (1) An Authorised Firm, when carrying on Insurance Business, Insurance Intermediation or Insurance Management as provided under chapter 7, may treat a Person it had treated as a Commercial Customer under the Previous Regime as a Professional Client without having to undertake the determination referred to in COB Rule 2.3.1(1) to the extent that it carries on the same Financial Service as it had carried on with or for that Person under the Previous Regime.

- (2) For the purposes of (1), a “Commercial Customer” means in relation to an Insurer, Insurance Manager or Insurance Intermediary, a customer who was an Undertaking or natural person carrying on a trade or business, with or without a view for profit.

## **10.4 Not currently in use**

## **10.5 Specific relief – IFR Module**

- 10.5.1** An Authorised Firm may distribute marketing material without having to comply with the requirements in IFR Rule 2.1.2 provided the marketing material complies with the Previous Regime and is distributed no later than 6 months after the Commencement Date.

## **10.6 Specific relief – Designated Investments**

- 10.6.1** In this section, the term Designated Investment has the meaning that it had under this module immediately prior to 4 January 2009.
- 10.6.2** An Authorised Person that is authorised under its Licence to carry on a Financial Service in respect of a Designated Investment may carry on that Financial Service as if that Designated Investment were a Structured Product.
- 10.6.3** For the purposes of the requirements in MKT and AMI modules, a Designated Investment which is included in an Official List of Securities of an Authorised Market Institution immediately prior to 4 January 2009 is deemed to be a Structured Product.

### **Guidance**

Under Rule 10.6.3, a Reporting Entity which had its Designated Investments included in an Official List of Securities of an Authorised Market Institution prior to 4 January 2009 will be treated as the Reporting Entity of Structured Products. Therefore, OSR and AMI Rules that apply to a Reporting Entity in relation to a Structured Product will apply to that Reporting Entity.

## **10.7 Specific relief – Corporate governance and remuneration related enhancements**

- 10.7.1** This section applies to every Person who is an Authorised Person on the date on which the rule-making instrument No 95 came into force.
- 10.7.2** A Person referred to Rule 10.7.1 has a transitional period of three months from the date on which the rule-making instrument No 95 came into force within which to comply with the corporate governance and the remuneration requirements introduced under rule-making instrument 95.

## **10.8 Specific relief – IFR Module - Accounting Standards**

- 10.8.1** An Authorised Persons who is authorised to conduct Islamic Financial Business as an Islamic Financial Institution or to operate an Islamic Window and who applies the accounting and auditing standards of the Accounting and Auditing Organisation for Islamic Financial Institutions immediately prior to the date on which the rule-making instrument No 105 came into force may continue to apply such standards for a period of not more than 2 years from such date.

## **10.9 Specific relief – ENF Module**

- 10.9.1** (1) Any matter commenced by the DFSA by way of notice under Article 90 or 91 of the Regulatory Law 2004 to impose an administrative fine or censure under the previous regime where the matter remains to be concluded on the date this rule came into force may be continued under the relevant requirements prescribed under the previous regime.
- (2) For the purposes of (1), the “previous regime” means the regime specified under Articles 90 and 91 of the Regulatory Law 2004 in force immediately prior to the coming into force of the DIFC Laws Amendment Law 2012 and the ENF module of the DFSA’s Rulebook prior to the coming into force of this Rule.



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## 11 SUPERVISION

### Introduction

#### Guidance

1. This chapter outlines DFSA's supervisory requirements for an Authorised Person.
2. This chapter should be read in conjunction with the RPP Sourcebook which sets out DFSA's general regulatory policy and processes.

### 11.1 Information gathering and DFSA access to information

**11.1.1** This section applies to an Authorised Person other than a Representative Office with respect to the carrying on of all of its activities.

**11.1.2** An Authorised Person must where reasonable:

- (a) give or procure the giving of specified information, documents, files, tapes, computer data or other material in the Authorised Person's possession or control to the DFSA;
- (b) make its Employees readily available for meetings with the DFSA;
- (c) give the DFSA access to any information, documents, records, files, tapes, computer data or systems, which are within the Authorised Person's possession or control and provide any facilities to the DFSA;
- (d) permit the DFSA to copy documents or other material on the premises of the Authorised Person at the Authorised Person's expense;
- (e) provide any copies as requested by the DFSA; and
- (f) answer truthfully, fully and promptly, all questions which are put to it by the DFSA.

**11.1.3** An Authorised Person must take reasonable steps to ensure that its Employees act in the manner set out in this chapter.

**11.1.4** An Authorised Person must take reasonable steps to ascertain if there is any secrecy or data protection legislation that would restrict access by the Authorised Person or the DFSA to any data required to be recorded under the DFSA's Rules. Where such legislation exists, the Authorised Person must keep copies of relevant documents or material in a jurisdiction which does allow access in accordance with legislation applicable in the DIFC.

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### Lead regulation

- 11.1.5** (1) If requested by the DFSA, an Authorised Person must provide the DFSA with information that the Authorised Person or its auditor has provided to a Financial Services Regulator.
- (2) If requested by the DFSA, an Authorised Person must take reasonable steps to provide the DFSA with information that other members of the Authorised Person's Group have provided to a Financial Services Regulator.

## 11.2 Waivers

**11.2.1** This section applies to every Authorised Person.

**11.2.2** Throughout the Rulebook reference to the written notice under Article 25 will be referred to as a 'waiver'.

**11.2.3** If an Authorised Person wishes to apply for a waiver, it must apply in writing and the application must be delivered to the DFSA as outlined in section 11.11.

### Guidance

Waiver application forms are contained in AFN and the RPP Sourcebook sets out the DFSA's approach to considering a waiver.

**11.2.4** The application must contain:

- (a) the name and Licence number of the Authorised Person;
- (b) the Rule to which the application relates;
- (c) a clear explanation of the waiver that is being applied for and the reason why the Authorised Person is requesting the waiver;
- (d) details of any other requirements; for example, if there is a specific period for which the waiver is required;
- (e) the reason, if any, why the waiver should not be published or why it should be published without disclosing the identity of the Authorised Person; and
- (f) all relevant facts to support the application.

**11.2.5** An Authorised Person must immediately notify the DFSA if it becomes aware of any material change in circumstances which may affect the application for a waiver.

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### Continuing relevance of waivers

- 11.2.6** An Authorised Person must immediately notify the DFSA if it becomes aware of any material change in circumstances which could affect the continuing relevance of a waiver.

## 11.3 Application to change the scope of a Licence

- 11.3.1** This section applies to an Authorised Firm applying to change the scope of its Licence or, where a condition or restriction has previously been imposed, to have the condition or restriction varied or withdrawn.

- 11.3.2** The provisions relating to permitted legal forms, fitness and propriety, adequate resources, compliance arrangements, enquiries and the provision of additional information set out in section 7.2 also apply to an Authorised Firm making an application under this chapter, and are to be construed accordingly.

- 11.3.3** An Authorised Firm applying to change the scope of its Licence, or to have a condition or restriction varied or withdrawn, must provide the DFSA, with written details of the proposed changes.

## 11.4 Withdrawal of a Licence at an Authorised Firm's request

- 11.4.1** An Authorised Firm other than a Representative Office seeking to have its Licence withdrawn must submit a request in writing stating:

- (a) the reasons for the request;
- (b) that it has ceased or will cease to carry on Financial Services in or from the DIFC;
- (c) the date on which it ceased or will cease to carry on Financial Services in or from the DIFC;
- (d) that it has discharged, or will discharge, all obligations owed to its customers in respect of whom the Authorised Firm has carried on, or will cease to carry on, Financial Services in or from the DIFC; and
- (e) if it is providing Trust Services, that it has made appropriate arrangements for the transfer of business to a new Trust Service Provider and the appointment, where necessary, of new trustees.

### Guidance

When considering a withdrawal of a Licence, the DFSA takes into account a number of matters including those outlined in the RPP Sourcebook.

## **11.5 Changes to an authorised individual status**

### **Guidance**

This section addresses applications or requests regarding Authorised Individuals with respect to Article 53(3), 56(3), 58(2) and 58(3).

**11.5.1** An application to extend the scope of an Authorised Individual status to other Licensed Functions may be made by the Authorised Individual and Authorised Firm by the completion and submission of the appropriate form in AFN.

**11.5.2** An Authorised Firm or Authorised Individual requesting:

- (a) the imposition, variation or withdrawal of a condition or restriction;
- (b) withdrawal of Authorised Individual status; or
- (c) withdrawal of authorisation in relation to one or more Licensed Functions;

must, subject to Rule 11.5.3, for (a) submit such request in writing to the DFSA, and for (b) and (c) submit a request by completing the appropriate form in AFN.

**11.5.3** A request for the variation or withdrawal of a condition or restriction may only be made after the expiry of any period within which a reference to the FMT relating to the relevant condition or restriction may commence under Article 29.

### **Guidance**

In considering the suitability of such an application or request the DFSA may take into account any matter referred to in RPP with respect to fitness and propriety for Authorised Individuals.

## **11.6 Temporary cover**

**11.6.1** (1) An Authorised Firm may, subject to (2), appoint an individual, who is not an Authorised Individual, to carry out the functions of an Authorised Individual where the following conditions are met:

- (a) the absence of the Authorised Individual is temporary or reasonably unforeseen;
- (b) the functions are carried out for 12 weeks maximum in any consecutive 12 months; and
- (c) the Authorised Firm has assessed that the individual has the relevant skills and experience to carry out these functions.

(2) An Authorised Firm may not appoint under (1) an individual to carry out the Licensed Functions of a Licensed Director or Licensed Partner.

- (3) The Authorised Firm must take reasonable steps to ensure that the individual complies with all the Rules applicable to Authorised Individuals.
- (4) Where an individual is appointed under this Rule, the Authorised Firm must notify the DFSA in writing of the name and contact details of the individual appointed.

**11.6.2** Where an individual is appointed under this section, the DFSA may exercise any powers it would otherwise be entitled to exercise as if the individual held Authorised Individual status.

## **11.7 Dismissal or resignation of an Authorised Individual**

**11.7.1** An Authorised Firm must request the withdrawal of an Authorised Individual status within seven days of the Authorised Individual ceasing to be employed by the Authorised Firm to perform a Licensed Function.

**11.7.2** In requesting the withdrawal of an Authorised Individual status, the Authorised Firm must submit the appropriate form in AFN, including details of any circumstances where the Authorised Firm may consider that the individual is no longer fit and proper.

**11.7.3** If an Authorised Individual is dismissed or requested to resign, a statement of the reason, or reasons, for the dismissal or resignation must be given to the DFSA by the Authorised Firm.

**11.7.4** If the Authorised Individual was acting as a trustee, the Trust Service Provider must confirm to the DFSA in writing that a new trustee has been appointed in place of the trustee in question.

## **11.8 Changes relating to control**

- 11.8.1** (1) This section applies, subject to (2) and (3), to:
- (a) an Authorised Firm; or
  - (b) a Person who is, or is proposing to become, a Controller specified in Rule 11.8.3.
- (2) This chapter does not apply to a Representative Office or a Person who is a Controller of such a firm.
- (3) A Credit Rating Agency must comply with the requirements in this section as if it were a non-DIFC established company.

**Guidance**

The requirements in respect of notification of changes relating to control of Branches (i.e. Non-DIFC established companies) are set out in Rule 11.8.10. Although some Credit Rating Agencies may be companies established in the DIFC, such companies will only be subject to the notification requirements relating to their Controllers. Accordingly, regardless of whether a Credit Rating Agency is a company established in the DIFC or a Branch operation, it is subject to the notification requirements only and not to the requirement for prior approval by the DFSA of changes relating to its Controllers.

**Definition of a Controller**

- 11.8.2** (1) A Controller is a Person who, either alone or with any Associate:
- (a) holds 10% or more of the shares in either the Authorised Firm or a Holding Company of that firm;
  - (b) is entitled to exercise, or controls the exercise of, 10% or more of the voting rights in either the Authorised Firm or a Holding Company of that firm; or
  - (c) is able to exercise significant influence over the management of the Authorised Firm as a result of holding shares or being able to exercise voting rights in the Authorised Firm or a Holding Company of that firm or having a current exercisable right to acquire such shares or voting rights.
- (2) A reference in this chapter to the term:
- (a) “share” means:
    - (i) in the case of an Authorised Firm, or a Holding Company of an Authorised Firm, which has a share capital, its allotted shares;
    - (ii) in the case of an Authorised Firm, or a Holding Company of an Authorised Firm, with capital but no share capital, rights to a share in its capital; and
    - (iii) in the case of an Authorised Firm, or a Holding Company of an Authorised Firm, without capital, any interest conferring a right to share in its profits or losses or any obligation to contribute to a share of its debt or expenses in the event of its winding up; and
  - (b) “a holding” means, in respect of a Person, shares, voting rights or a right to acquire shares or voting rights in an Authorised Firm or a Holding Company of that firm held by that Person either alone or with any Associate.

**Guidance**

1. For the purposes of these Rules, the relevant definition of a Holding Company is found in the DIFC Companies Law. That definition describes when one body corporate is considered to be a holding company or a subsidiary of another body

corporate and extends that concept to the ultimate holding company of the body corporate.

2. Pursuant to Rule 11.8.2(1)(c), a Person becomes a Controller if that Person can exert significant management influence over an Authorised Firm. The ability to exert significant management influence can arise even where a Person, alone or with his Associates, controls less than 10% of the shares or voting rights of the Authorised Firm or a Holding Company of that firm. Similarly, a Person may be able to exert significant management influence where such Person does not hold shares or voting rights but has current exercisable rights to acquire shares or voting rights, such as under Options.

### **Disregarded holdings**

**11.8.3** For the purposes of determining whether a Person is a Controller, any shares, voting rights or rights to acquire shares or voting rights that a Person holds, either alone or with any Associate, in an Authorised Firm or a Holding Company of that firm are disregarded if:

- (a) they are shares held for the sole purpose of clearing and settling within a short settlement cycle;
- (b) they are shares held in a custodial or nominee capacity and the voting rights attached to the shares are exercised only in accordance with written instructions given to that Person by another Person; or
- (c) the Person is an Authorised Firm or a Regulated Financial Institution and it:
  - (i) acquires the shares as a result of an underwriting of a share issue or a placement of shares on a firm commitment basis;
  - (ii) does not exercise the voting rights attaching to the shares or otherwise intervene in the management of the issuer; and
  - (iii) retains the shares for a period less than one year.

### **Requirement for prior approval of Controllers of Domestic Firms**

**11.8.4** (1) In the case of an Authorised Firm which is a Domestic Firm, a Person must not:

- (a) become a Controller; or
- (b) increase the level of control which that Person has in the firm beyond a threshold specified in (2),

unless that Person has obtained the prior written approval of the DFSA to do so.

- (2) For the purposes of (1)(b), the thresholds at which the prior written approval of the DFSA is required are when the relevant holding is increased:
  - (a) from below 30% to 30% or more; or
  - (b) from below 50% to 50% or more.

**Guidance**

See Rules 11.8.2 and 11.8.3 for the circumstances in which a Person becomes a Controller of an Authorised Person.

**Approval process**

- 11.8.5** (1) A Person who is required to obtain the prior written approval of the DFSA pursuant to Rule 11.8.4(1) must make an application to the DFSA using the appropriate form in AFN.
- (2) Where the DFSA receives an application under (1), it may:
- (a) approve the proposed acquisition or increase in the level of control;
  - (b) approve the proposed acquisition or increase in the level of control subject to such conditions as it considers appropriate; or
  - (c) object to the proposed acquisition or increase in the level of control.

**Guidance**

1. A Person intending to acquire or increase control in an Authorised Firm should submit an application for approval in the appropriate form in AFN sufficiently in advance of the proposed acquisition to be able to obtain the DFSA approval in time for the proposed acquisition. Sections 3-2-34 – 3-2-37 of the RPP Sourcebook set out the matters which the DFSA will take into consideration when exercising its powers under Rule 11.8.5 to approve, object to or impose conditions of approval relating to a proposed Controller or a proposed increase in the level of control of an existing Controller.
  2. The DFSA will exercise its powers relating to Controllers in a manner proportionate to the nature, scale and complexity of an Authorised Firm's business, and the impact a proposed change in control would have on that firm and its Clients. For example, the DFSA would generally be less likely to impose conditions requiring a proposed acquirer of control of an Authorised Firm whose financial failure would have a limited systemic impact or impact on its Clients to provide prudential support to the firm by contributing more capital. Most advisory and arranging firms will fall into this class.
- 11.8.6** (1) Where the DFSA proposes to approve a proposed acquisition or an increase in the level of control in an Authorised Firm pursuant to Rule 11.8.5(2)(a), it must:
- (a) do so as soon as practicable and in any event within 90 days of the receipt of a duly completed application, unless a different period is considered appropriate by the DFSA and notified to the applicant in writing; and
  - (b) issue to the applicant, and where appropriate to the Authorised Firm, an approval notice as soon as practicable after making that decision.
- (2) An approval, including a conditional approval granted by the DFSA pursuant to Rule 11.8.5(2)(a) or (b), is valid for a period of one year



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from the date of the approval, unless an extension is granted by the DFSA in writing.

**Guidance**

1. If the application for approval lodged with the DFSA does not contain all the required information, then the 90 day period runs from the date on which all the relevant information has been provided to the DFSA.
2. If a Person who has obtained the prior DFSA approval for an acquisition or an increase in the control of an Authorised Firm is unable to effect the acquisition before the end of the period referred to in Rule 11.8.6(2), it will need to obtain fresh approval from the DFSA.

**Objection or conditional approval process**

- 11.8.7** (1) Where the DFSA proposes to exercise its objection or conditional approval power pursuant to Rule 11.8.5(2)(b) or (c) in respect of a proposed acquisition of, or an increase in the level of control in, an Authorised Firm, it must, as soon as practicable and in any event within 90 days of the receipt of the duly completed application form, provide to the applicant:
- (a) a written notice stating:
    - (i) the DFSA's reasons for objecting to that Person as a Controller or to the Person's proposed increase in control; and
    - (ii) any proposed conditions subject to which that Person may be approved by the DFSA; and
  - (b) an opportunity to make representations within 14 days of the receipt of such notice or such other longer period as agreed to by the DFSA.
- (2) The DFSA must, as soon as practicable after receiving representations or, if no representations are received, after the expiry of the period for making representations referred to in (1)(b), issue a final notice stating that:
- (a) the proposed objections and any conditions are withdrawn and the Person is an approved Controller;
  - (b) the Person is approved as a Controller subject to conditions specified in the notice; or
  - (c) the Person is not approved and therefore is an unacceptable Controller with respect to that Person becoming a Controller of, or increasing the level of control in, the Authorised Firm.
- (3) If the DFSA decides to exercise its power under this Rule not to approve a Person as a Controller or to impose conditions on an approval, the Person may refer the matter to the FMT for review.
- 11.8.8** (1) A Person who has been approved by the DFSA as a Controller of an Authorised Firm subject to any conditions must comply with the relevant conditions of approval.
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- (2) A Person who has been notified by the DFSA pursuant to Rule 11.8.7(2)(c) as an unacceptable Controller must not proceed with the proposed acquisition of control of the Authorised Firm.

**Guidance**

A Person who acquires control of or increases the level of control in an Authorised Firm without the prior DFSA approval or breaches a condition of approval is in breach of the Rules. See Rule 11.8.13 for the actions that the DFSA may take in such circumstances.

**Notification for decrease in the level of control of Domestic Firms**

- 11.8.9** A Controller of an Authorised Firm which is a Domestic Firm must submit, using the appropriate form in AFN, a written notification to the DFSA where that Person:

- (a) proposes to cease being a Controller; or
- (b) proposes to decrease that Person's holding from more than 50% to 50% or less.

**Requirement for notification of changes relating to control of Branches**

- 11.8.10** (1) In the case of an Authorised Firm which is a Branch, a written notification to the DFSA must be submitted by a Controller or a Person proposing to become a Controller of that Authorised Firm in accordance with (3) in respect of any one of the events specified in (2).
- (2) For the purposes of (1), a notification to the DFSA is required when:
- (a) a Person becomes a Controller;
  - (b) an existing Controller proposes to cease being a Controller; or
  - (c) an existing Controller's holding is:
    - (i) increased from below 30% to 30% or more;
    - (ii) increased from below 50% to 50% or more; or
    - (iii) decreased from more than 50% to 50% or less.
- (3) The notification required under (1) must be made by a Controller or Person proposing to become a Controller of a Branch using the appropriate form in AFN as soon as possible, and in any event, before making the relevant acquisition or disposal.

**Obligations of Authorised Firms relating to its Controllers**

- 11.8.11** (1) An Authorised Firm must have adequate systems and controls to monitor:
- (a) any change or proposed change of its Controllers; and

- (b) any significant changes in the conduct or circumstances of existing Controllers which might reasonably be considered to impact on the fitness and propriety of the Authorised Firm or its ability to conduct business soundly and prudently.
- (2) An Authorised Firm must, subject to (3), notify the DFSA in writing of any event specified in (1) as soon as possible after becoming aware of that event.
- (3) An Authorised Firm need not comply with the requirement in (2) if it is satisfied on reasonable grounds that a proposed or existing Controller has either already obtained the prior approval of the DFSA or notified the event to the DFSA as applicable.

**Guidance**

Steps which an Authorised Firm may take in order to monitor changes relating to Controllers include the monitoring of any relevant regulatory disclosures, press reports, public announcements, share registers and entitlements to vote, or the control of voting rights, at general meetings.

- 11.8.12** (1) An Authorised Firm must submit to the DFSA an annual report on its Controllers within four months of its financial year end.
- (2) The Authorised Firm's annual report on its Controllers must include:
- (a) the name of each Controller; and
  - (b) the current holding of each Controller, expressed as a percentage.

**Guidance**

1. An Authorised Firm may satisfy the requirements of Rule 11.8.12 by submitting a corporate structure diagram containing the relevant information.
2. An Authorised Firm must take account of the holdings which the Controller, either alone or with any Associate, has in the Authorised Firm or any Holding Company of the firm (see the definition of a Controller in Rule 11.8.2).

**Other Powers relating to Controllers**

- 11.8.13** (1) Without limiting the generality of its other powers, the DFSA may, subject only to (2), object to a Person as a Controller of an Authorised Firm where such a Person:
- (a) has acquired or increased the level of control that Person has in an Authorised Firm without the prior written approval of the DFSA as required under Rule 11.8.4;
  - (b) has breached the requirement in Rule 11.8.8 to comply with the conditions of approval applicable to that Person; or
  - (c) is no longer acceptable to the DFSA as a Controller.

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- (2) Where the DFSA proposes to object to a Person as a Controller of an Authorised Firm under (1), the DFSA must provide such a Person with:
    - (a) a written notice stating:
      - (i) the DFSA's reasons for objecting to that Person as a Controller; and
      - (ii) any proposed conditions subject to which that Person may be approved by the DFSA; and
    - (b) an opportunity to make representations within 14 days of the receipt of such objections notice or such other longer period as agreed to by the DFSA.
  - (3) The DFSA must, as soon as practicable after receiving representations, or if no representations are made, after the expiry of the period for making representations referred to in (2)(b), issue a final notice stating that:
    - (a) the proposed objections and any conditions are withdrawn and the Person is an approved Controller;
    - (b) the Person is approved as a Controller subject to conditions specified in the notice; or
    - (c) the Person is an unacceptable Controller and accordingly, must dispose of that Person's holdings.
  - (4) Where the DFSA has issued a final notice imposing any conditions subject to which a Person is approved as a Controller, that Person must comply with those conditions.
  - (5) Where the DFSA has issued a final notice declaring a Person to be an unacceptable Controller, that Person must dispose of the relevant holdings within such period as specified in the final notice.
  - (6) The DFSA must also notify the Authorised Firm of any decision it has made pursuant to (3).
  - (7) If the DFSA decides to exercise its power under this Rule to object to a Person as a Controller, to impose conditions on an approval or to require a Person to dispose of their holdings, the Person may refer the matter to the FMT for review.

**Guidance**

Sections 3.2.34 and 3.2.37 of the RPP Sourcebook set out the matters which the DFSA takes into consideration when exercising its powers under Rule 11.8.13.

## **11.9 Creation of additional cells of a protected cell company for an Insurer**

**11.9.1** This section applies to Insurers that are Protected Cell Companies.

### **Guidance**

1. An Insurer that is a Protected Cell Company is a company incorporated as, or converted into, a Protected Cell Company in accordance with the provisions of the DIFC Company Regulations.
2. Under the provisions of the DIFC Company Regulations dealings or transactions between Cells in relation to an Insurer may take place only with the approval of the Court.
3. An Authorised Firm which intends to apply to the Court for approval under the provisions is invited to consult with the DFSA before making the necessary application to the Court.

**11.9.2** An Insurer that is a Protected Cell Company may not create a new Cell unless approval has been granted by the DFSA.

**11.9.3** An application to the DFSA for the approval for the creation of a new Cell must be made on the appropriate form in AFN, and shall be accompanied by such documents and information and verified in such manner, as the DFSA may require.

- 11.9.4** (1) The DFSA may:
- (a) grant approval;
  - (b) grant approval with conditions or restrictions; or
  - (c) refuse approval;
- for the creation of a new Cell.
- (2) The procedures in Schedule 3 to the Regulatory Law apply to a decision of the DFSA under (1)(b) and (c).
- (3) If the DFSA decides to exercise its power under (1)(b) and (c), the Insurer may refer the matter to the FMT for review.

## **11.10 Notifications**

- 11.10.1** (1) This section applies to every Authorised Person, unless otherwise provided, with respect to the carrying on of Financial Services and any other activities whether or not financial.
- (2) This section does not apply to a Representative Office.

**Guidance**

1. This chapter sets out Rules on specific events, changes or circumstances that require notification to the DFSA and outlines the process and requirements for notifications.
2. The list of notifications outlined in this chapter is not exhaustive. Other areas of the Rulebook may also detail additional notification requirements.
3. An Authorised Person and its auditor are also required under Article 67 to disclose to the DFSA any matter which may indicate a breach or likely breach of, or a failure or likely failure to comply with, laws or Rules. An Authorised Person is also required to establish and implement systems and procedures to enable its compliance and compliance by its auditor with notification requirements.

**Core information**

**11.10.2** An Authorised Person must provide the DFSA with reasonable advance notice of a change in:

- (a) the Authorised Person's name;
- (b) any business or trading name under which the Authorised Person carries on a Financial Service in or from the DIFC;
- (c) the address of the Authorised Person's principal place of business in the DIFC;
- (d) in the case of a Branch, its registered office or head office address;
- (e) its legal structure; or
- (f) an Authorised Individual's name or any material matters relating to his fitness and propriety.

**11.10.3** A Domestic Firm must provide the DFSA with reasonable advance notice of the establishment or closure of a branch office anywhere in the world from which it carries on financial services.

**11.10.4** When giving notice under Rule 11.10.3 in relation to the establishment of a branch, a Domestic Firm must at the same time submit to the DFSA a detailed business plan in relation to the activities of the proposed branch.

**11.10.5** (1) The DFSA may object to the establishment by a Domestic Firm of a branch office elsewhere in the world.

(2) If the DFSA objects to the firm establishing a branch anywhere in the world the firm may not proceed with establishment of such a branch.

(3) The procedures in Schedule 3 to the Regulatory Law apply to a decision of the DFSA under (1).

(4) If the DFSA decides to exercise its power under (1), the Domestic Firm may refer the matter to the FMT for review.

**11.10.6** Deleted

### **Regulatory impact**

**11.10.7** An Authorised Person must advise the DFSA immediately if it becomes aware, or has reasonable grounds to believe, that any of the following matters may have occurred or may be about to occur:

- (a) the Authorised Person's failure to satisfy the fit and proper requirements;
- (b) any matter which could have a significant adverse effect on the Authorised Person's reputation;
- (c) any matter in relation to the Authorised Person which could result in serious adverse financial consequences to the financial system or to other firms;
- (d) a significant breach of a Rule by the Authorised Person or any of its Employees;
- (e) a breach by the Authorised Person or any of its Employees of any requirement imposed by any applicable law by the Authorised Person or any of its Employees;
- (f) subject to Rule 11.10.8, any proposed restructuring, merger, acquisition, reorganisation or business expansion which could have a significant impact on the Authorised Person's risk profile or resources;
- (g) any significant failure in the Authorised Person's systems or controls, including a failure reported to the Authorised Person by the firm's auditor;
- (h) any action that would result in a material change in the capital adequacy or solvency of the Authorised Firm; or
- (i) non-compliance with Rules due to an emergency outside the Authorised Person's control and the steps being taken by the Authorised Person.

### **Major acquisitions**

**11.10.8** (1) Subject to (2), an Authorised Firm which makes or proposes to make a Major Acquisition as defined in (3) must:

- (a) if it is a Domestic Firm, comply with the requirements in Rule 11.10.9; and
- (b) if it is not a Domestic Firm, comply with the requirements in Rule 11.10.10.

(2) The requirement in (1) does not apply to an Authorised Firm which is a Credit Rating Agency or a firm in Category 3 (as defined in PIB Rule 1.3.3) or Category 4 (as defined in PIB Rule 1.3.4).

(3) Subject to (4), an Authorised Firm makes a Major Acquisition if it makes or proposes to directly or indirectly acquire a shareholding in a Body Corporate where that acquisition:

- 
- (a) is of a value (whether by one acquisition or a series of acquisitions) of 10% or more of:
    - (i) the Authorised Firm's Capital Resources, if it is a Domestic Firm which is a Category 1 Authorised Firm (as defined in PIB Rule 1.3.1), Category 2 Authorised Firm (as defined in PIB Rule 1.3.2) or Category 5 Authorised Firm (as defined in PIB Rule 1.3.5); or
    - (ii) the Authorised Firm's Adjusted Capital Resources, if it is a Domestic Firm conducting Insurance Business; or
    - (iii) the capital resources of the Authorised Firm calculated in accordance with the requirements of the Financial Services Regulator in its home jurisdiction, if it is not a Domestic Firm; or
  - (b) even if it does not exceed the 10% threshold referred to in (a), it is reasonably likely to have a significant regulatory impact on the Authorised Firm's activities.
- (4) An acquisition is not a Major Acquisition for the purposes of (3) if it is an investment made by an Authorised Firm:
- (a) in accordance with the terms of a contract entered into by the Authorised Firm as an incidental part of its ordinary business; or
  - (b) as a routine transaction for managing the Authorised Firm's own investment portfolio and therefore can reasonably be regarded as made for a purpose other than acquiring management or control of a Body Corporate either directly or indirectly.

### **Guidance**

1. Examples of the kind of investments referred to in Rule 11.10.8(3)(b) include an acquisition of a stake in a small specialised trading firm that engages in high risk trades or other activities that could pose a reputational risk to the Authorised Firm.
2. The onus is on an Authorised Firm proposing to make an acquisition to consider whether it qualifies as a Major Acquisition under Rule 11.10.8(3)(b). Generally, in the case of an Authorised Firm that is not a Domestic Firm (i.e. a Branch operation in the DIFC), the significant regulatory impact referred to in Rule 11.10.8 (3)(b) should be prudential risk to the Authorised Firm as a whole. If an Authorised Firm is uncertain about whether or not a proposed acquisition qualifies as a Major Acquisition under Rule 11.10.8 (3)(b), the Authorised Firm may seek guidance from the DFSA.
3. Examples of contractual arrangements of the kind referred to in Rule 11.10.8 (4)(a) include enforcement of a security interest in the securities of the investee Body Corporate or a loan workout pursuant to a loan agreement entered into between a bank and its client.
4. Examples of the kind of investments referred to in Rule 11.10.8(4)(b) include temporary investments, such as investments included in the



Authorised Firm's trading book or which are intended to be disposed of within a short term (e.g. within 12 months).

- 11.10.9** (1) An Authorised Firm which is a Domestic Firm must:
- (a) before making a Major Acquisition:
    - (i) notify the DFSA in writing of the proposed Major Acquisition at least 45 days prior to the proposed date for effecting the Major Acquisition; and
    - (ii) give to the DFSA all the relevant information relating to that Major Acquisition to enable the DFSA to assess the impact of the proposed Major Acquisition on the Authorised Firm; and
  - (b) not effect the proposed Major Acquisition unless:
    - (i) the Authorised Firm has either received written advice from the DFSA that it has no objection to that Major Acquisition or has not received any written objection or request for additional information from the DFSA within 45 days after the date of the notification; and
    - (ii) if the DFSA has imposed any conditions relating to the proposed Major Acquisition, it has complied with, and has the on-going ability to comply with, the relevant conditions.
- (2) The DFSA may only object to a proposed Major Acquisition if it is of the view that the proposed Major Acquisition is reasonably likely to have a material adverse impact on the Authorised Firm's ability to comply with its applicable regulatory requirements or on the financial services industry in the DIFC as a whole. The DFSA may also impose any conditions it considers appropriate to address any concerns it may have in relation to the proposed Major Acquisition.
- (3) Without limiting the generality of its powers, the factors that the DFSA may take into account for the purposes of (2) include:
- (a) the financial and other resources available to the Authorised Firm to carry out the proposed Major Acquisition;
  - (b) the possible impact of the proposed Major Acquisition upon the Authorised Firm's resources, including its capital, both at the time of the acquisition and on an on-going basis;
  - (c) the managerial capacity of the Authorised Firm to ensure that the activities of the investee Body Corporate are conducted in a prudent and reputable manner;
  - (d) the place of incorporation or domicile of the investee Body Corporate and whether or not the laws applicable to that entity are consistent with the laws applicable to the Authorised Firm. In particular, whether there are any secrecy constraints that are likely to create difficulties in relation to the DFSA

requirements including those relating to consolidated supervision by the DFSA where applicable; and

- (e) any other undue risks to the Authorised Firm or the financial services industry in the DIFC as a whole arising from the proposed Major Acquisition.

**Guidance**

Factors which the DFSA may take into account in assessing whether there are any undue risks arising from the proposed Major Acquisition include the size and nature of the business of the investee Body Corporate, its reputation and standing, its present and proposed management structure and the quality of management, the reporting lines and other monitoring and control mechanisms available to the Authorised Firm and the past records of the Authorised Firm relating to acquisitions of a similar nature.

- 11.10.10** (1) An Authorised Firm which is not a Domestic Firm must:
  - (a) notify the DFSA in writing of any Major Acquisition in accordance with the notification requirement applying to the Authorised Firm under the requirements of the Financial Services Regulator in its home jurisdiction (the home regulator); and
  - (b) if there is no notification requirement applying to the Authorised Firm under (a), comply with the requirements in Rule 11.10.9 as if it were a Domestic Firm. The DFSA must follow the same procedures, and shall have the same powers, as set out in Rule 11.10.9 in relation to such a notification.
- (2) An Authorised Firm which gives to the DFSA a notification under (1)(a) must:
  - (a) notify the DFSA of the Major Acquisition at the same time as it notifies the home regulator;
  - (b) provide to the DFSA the same information as it is required to provide to the home regulator; and
  - (c) provide to the DFSA copies of any communications it receives from the home regulator relating to the notification it has provided to the home regulator as soon as practicable upon receipt.
- 11.10.11** (1) The DFSA may, for the purposes of the requirements in this section, require from an Authorised Firm any additional information relating to the Major Acquisition as it may consider appropriate. An Authorised Firm must provide any such additional information to the DFSA promptly.
- (2) The DFSA may, where it considers appropriate, withdraw its no objection position or modify or vary any condition it has imposed or any remedial action it has required under the Rules in this section

**Guidance**

The DFSA will generally not withdraw a no objection position it has conveyed to an Authorised Firm, except in very limited circumstances. An example of such a situation is where the Authorised Firm is found to have provided to the DFSA inaccurate or incomplete information and that commission or omission has a material impact on the DFSA's no objection decision.

- 11.10.12** (1) The procedures in Schedule 3 to the Regulatory Law apply to a decision of the DFSA under Rules 11.10.9, 11.10.10 and 11.10.11 to object to an acquisition or to impose or vary conditions.
- (2) If the DFSA decides to exercise its power under Rule 11.10.9, 11.10.10 or 11.10.11 to object to an acquisition or to impose or vary conditions, the Authorised Firm may refer the matter to the FMT for review.

### **Fraud and errors**

**11.10.13** An Authorised Person must notify the DFSA immediately if one of the following events arises in relation to its activities in or from the DIFC:

- (a) it becomes aware that an Employee may have committed a fraud against one of its customers;
- (b) a serious fraud has been committed against it;
- (c) it has reason to believe that a Person is acting with intent to commit a serious fraud against it;
- (d) it identifies significant irregularities in its accounting or other records, whether or not there is evidence of fraud; or
- (e) it suspects that one of its Employees who is connected with the Authorised Person's Financial Services may be guilty of serious misconduct concerning his honesty or integrity.

### **Other regulators**

**11.10.14** An Authorised Person must advise the DFSA immediately of:

- (a) the granting or refusal of any application for or revocation of authorisation to carry on financial services in any jurisdiction outside the DIFC;
- (b) the granting, withdrawal or refusal of an application for, or revocation of, membership of the Authorised Person of any regulated exchange or clearing house;
- (c) the Authorised Person becoming aware that a Financial Services Regulator has started an investigation into the affairs of the Authorised Person;
- (d) the appointment of inspectors, howsoever named, by a Financial Services Regulator to investigate the affairs of the Authorised Person; or

- 
- (e) the imposition of disciplinary measures or disciplinary sanctions on the Authorised Person in relation to its financial services by any Financial Services Regulator or any regulated exchange or clearing house.

**Guidance**

The notification requirement in Rule 11.10.14(c) extends to investigations relating to any employee or agent of an Authorised Person or a member of its Group, provided the conduct investigated relates to or impacts on the affairs of the Authorised Person.

**Action against an Authorised Person**

**11.10.15** An Authorised Person must notify the DFSA immediately if:

- (a) civil proceedings are brought against the Authorised Person and the amount of the claim is significant in relation to the Authorised Person's financial resources or its reputation; or
- (b) the Authorised Person is prosecuted for, or convicted of, any offence involving fraud or dishonesty, or any penalties are imposed on it for tax evasion.

**Winding up, bankruptcy and insolvency**

**11.10.16** An Authorised Person must notify the DFSA immediately on:

- (a) the calling of a meeting to consider a resolution for winding up the Authorised Person;
- (b) an application to dissolve the Authorised Person or to strike it from the register maintained by the DIFC Registrar of Companies, or a comparable register in another jurisdiction;
- (c) the presentation of a petition for the winding up of the Authorised Person;
- (d) the making of, or any proposals for the making of, a composition or arrangement with creditors of the Authorised Person; or
- (e) the application of any person against the Authorised Person for the commencement of any insolvency proceedings, appointment of any receiver, administrator or provisional liquidator under the law of any country.

**Accuracy of information**

**11.10.17** An Authorised Person must take reasonable steps to ensure that all information that it provides to the DFSA in accordance with any legislation applicable in the DIFC is:

- (a) factually accurate or, in the case of estimates and judgements, fairly and properly based; and
- (b) complete, in that it should include anything of which the DFSA would reasonably expect to be notified.

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- 11.10.18** (1) An Authorised Person must notify the DFSA immediately it becomes aware, or has information that reasonably suggests, that it:
- (a) has or may have provided the DFSA with information which was or may have been false, misleading, incomplete or inaccurate; or
  - (b) has or may have changed in a material particular.
- (2) Subject to (3), the notification in (1) must include details of the information which is or may be false or misleading, incomplete or inaccurate, or has or may have changed and an explanation why such information was or may have been provided and the correct information.
- (3) If the correct information in (2) cannot be submitted with the notification it must be submitted as soon as reasonably possible.
- 11.10.19** In the case of an Insurer which is a Protected Cell Company, an Insurer must advise the DFSA immediately it becomes aware of any actual or prospective significant change in the type or scale of the business conducted through a Cell, or the ownership of the Cell shares.

#### **Information relating to corporate governance and remuneration**

- 11.10.20** (1) Subject to (2), an Authorised Firm must provide to the DFSA notice of any significant changes to its corporate governance framework or the remuneration structure or strategy as soon as practicable.
- (2) An Authorised Firm which is a Branch must provide notice of any significant changes to its corporate governance framework or the remuneration structure or strategy only if the changes are relevant to the activities and operations of the Branch.

#### **Guidance**

1. The purpose of these notifications is to ensure that the DFSA is informed of any significant changes to the Authorised Firm's corporate governance framework and remuneration structure and strategies.
2. Significant changes that the DFSA expects Authorised Firms to notify the DFSA pursuant to Rule 11.10.20 generally include:
  - a. any major changes to the composition of the Governing Body;
  - b. any changes relating to Persons Undertaking Key Control Functions, such as their removal or new appointments or changes in their reporting lines; and
  - c. significant changes to the remuneration structure that apply to the members of the Governing Body, senior management, Persons Undertaking Key Control Functions and major risk taking Employees.
3. The DFSA expects Branches to provide to the DFSA notification of significant changes that are relevant to the Branch operations.

## 11.11 Provision of notifications and reports

- 11.11.1** (1) Unless a Rule states otherwise, an Authorised Person must ensure that each notification or report it provides to the DFSA is:
- (a) in writing and contains the Authorised Person's name and Licence number; and
  - (b) addressed for the attention of (in the case of an Authorised Firm) the Supervision Department and (in the case of an Authorised Market Institution) the Markets Department and delivered to the DFSA by:
    - (i) post to the current address of the DFSA;
    - (ii) hand delivered to the current address of the DFSA;
    - (iii) electronic mail to an address provided by the DFSA; or
    - (iv) faxed to a fax number provided by the DFSA.
- (2) In (1)(b) confirmation of receipt must be obtained.

## 11.12 Requirement to provide a report

**11.12.1** This section applies to every Authorised Person.

### Guidance

1. Under Article 74, the DFSA may require an Authorised Person to provide it with a report on any matter. The Person appointed to make a report must be a Person nominated or approved by the DFSA. This Person will be referred to throughout the Rulebook as an independent expert.
2. When requesting a report under Article 74, the DFSA may take into consideration the matters set out in the RPP Sourcebook.

### Independent Expert

- 11.12.2** (1) The DFSA may, by sending a notice in writing, require an Authorised Person to provide a report by an independent expert. The DFSA may require the report to be in whatever form it specifies in the notice.
- (2) The DFSA will give written notification to the Authorised Person of the purpose of its report, its scope, the timetable for completion and any other relevant matters.
- (3) The independent expert must be appointed by the Authorised Person and be nominated or approved by the DFSA.
- (4) The Authorised Person must pay for the services of the independent expert.

### Guidance

1. If the DFSA decides to nominate the independent expert, it will notify the Authorised Person accordingly. Alternatively, if the DFSA is content to approve the independent expert selected by the Authorised Person it will notify it of that fact.
2. The DFSA will only approve an independent expert that in the DFSA's opinion has the necessary skills to make a report on the matter concerned.

**11.12.3** When an Authorised Person appoints an independent expert, the Authorised Person must ensure that:

- (a) the independent expert co-operates with the DFSA; and
- (b) the Authorised Person provides all assistance that the independent expert may reasonably require.

**11.12.4** When an Authorised Person appoints an independent expert, the Authorised Person must, in the contract with the independent expert:

- (a) require and permit the independent expert to co-operate with the DFSA in relation to the Authorised Person and to communicate to the DFSA information on, or his opinion on, matters of which he has, or had, become aware in his capacity as an independent expert reporting on the Authorised Person in the following circumstances:
  - (i) the independent expert reasonably believes that, as regards the Authorised Person concerned:
    - (A) there is or has been, or may be or may have been, a contravention of any relevant requirement that applies to the Authorised Person concerned; and
    - (B) that the contravention may be of material significance to the DFSA in determining whether to exercise, in relation to the Authorised Person concerned, any powers conferred on the DFSA under any provision of the Regulatory Law 2004;
  - (ii) the independent expert reasonably believes that the information on, or his opinion on, those matters may be of material significance to the DFSA in determining whether the Authorised Person concerned satisfies and will continue to satisfy the fit and proper requirements; or
  - (iii) the independent expert reasonably believes that the Authorised Firm is not, may not be, or may cease to be, a going concern;
- (b) require the independent expert to prepare a report within the time specified by the DFSA; and
- (c) waive any duty of confidentiality owed by the independent expert to the Authorised Person which might limit the provision of information or opinion by that independent expert to the DFSA in accordance with (a) or (b).

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**11.12.5** An Authorised Person must ensure that the contract required under Rule 11.12.4:

- (a) is governed by the laws of the DIFC;
- (b) expressly provides that the DFSA has a right to enforce the provisions included in the contract under Rule 11.12.4;
- (c) expressly provides that, in proceedings brought by the DFSA for the enforcement of those provisions, the independent expert is not to have available by way of defence, set-off or counter claim any matter that is not relevant to those provisions;
- (d) if the contract includes an arbitration agreement, expressly provides that the DFSA is not, in exercising the right in (b) to be treated as a party to, or bound by, the arbitration agreement; and
- (e) provides that the provisions included in the contract under Rule 11.12.4 are irrevocable and may not be varied or rescinded without the DFSA's consent.

### **11.13 Imposing Restrictions on an Authorised Person's business or on an Authorised Person dealing with property**

**11.13.1** The DFSA has the power to impose a prohibition or requirement on an Authorised Person in relation to the Authorised Person's business or in relation to the Authorised Person's dealing with property under Article 75 or Article 76 in circumstances where:

- (a) there is a reasonable likelihood that the Authorised Person will contravene a requirement of any legislation applicable in the DIFC;
- (b) the Authorised Person has contravened a relevant requirement and there is a reasonable likelihood that the contravention will continue or be repeated;
- (c) there is loss, risk of loss, or other adverse effect on the Authorised Person's customers;
- (d) an investigation is being carried out in relation to an act or omission by the Authorised Person that constitutes or may constitute a contravention of any applicable law or Rule;
- (e) an enforcement action has commenced against the Authorised Person for a contravention of any applicable law or Rule;
- (f) civil proceedings have commenced against the Authorised Person;
- (g) the Authorised Person or any Employee of the Authorised Person may be or has been engaged in market abuse;
- (h) the Authorised Person is subject to a merger;



- (i) a meeting has been called to consider a resolution for the winding up of the Authorised Person;
- (j) an application has been made for the commencement of any insolvency proceedings or the appointment of any receiver, administrator or provisional liquidator under the law of any country for the Authorised Person;
- (k) there is a notification to dissolve the Authorised Person or strike it from the DIFC register of Companies or the comparable register in another jurisdiction;
- (l) there is information to suggest that the Authorised Person is involved in financial crime; or
- (m) the DFSA considers that this prohibition or requirement is necessary to ensure customers, Authorised Persons or the financial system are not adversely affected.

## **12 BUSINESS TRANSFER SCHEMES**

### **Guidance**

1. Part 9 of the Regulatory Law (“Part 9”) sets out provisions relating to financial services business transfer schemes (“transfer schemes”). Article 106 provides that no transfer scheme is to have effect unless a Court order has been made in relation to the scheme. Article 108 provides that the Court may make an order sanctioning a transfer scheme.
2. The DFSA may under Article 113 of the Regulatory Law make Rules providing for provisions of Part 9 to have effect in specified cases with modifications. This chapter sets out such Rules.
3. The intended effect of the Rules in this chapter when read with Part 9 is that:
  - (a) a Banking transfer scheme and an Insurance transfer scheme (as defined in this chapter) must continue to comply with all relevant requirements in Part 9 and such a scheme does not take effect unless a Court order has been made in relation to it under Article 108; and
  - (b) a transfer scheme, other than a scheme referred to in (a) or a scheme relating to a Domestic Fund, is not required to be sanctioned by a Court order under Article 108 if certain conditions set out in Rule 12.1.4 are met.
4. The Rules in this chapter do not prevent an Authorised Firm or transferee applying for a Court order sanctioning a transfer scheme under Part 9 if they consider it appropriate to do so, for example, if the scheme is complex, is likely to be contentious or if additional legal certainty is sought.

### **12.1 Modifications applying to transfer schemes**

**12.1.1** The Rules in this chapter are prescribed under Article 113 of the Regulatory Law and Part 9 of that Law is to be read as if it was modified, in relation to the cases set out in Rule 12.1.4, as specified in this chapter.

**12.1.2** In this chapter:

- (a) “Banking transfer scheme” means a transfer scheme where the whole or part of the business to be transferred relates to the Authorised Firm’s business of Accepting Deposits;
- (b) “Court order” means a Court order under Article 108 of the Law;
- (c) “Fund transfer scheme” means a transfer scheme relating to the Fund Property of a Domestic Fund or of a sub-fund of an Umbrella Fund that is a Domestic Fund;
- (d) “Insurance transfer scheme” means a transfer scheme where the whole or part of the business to be transferred relates to the Authorised Firm’s Insurance Business;
- (e) “the Law” means the Regulatory Law; and
- (f) “transfer scheme” has the meaning given in Article 106 of the Law.

**12.1.3** The Rules in this chapter do not modify the provisions of Part 9 of the Law so far as they apply to any of the following:

- (a) a Banking transfer scheme;
- (b) an Insurance transfer scheme; or
- (c) a Fund transfer scheme.

**12.1.4** A transfer scheme, other than a scheme referred to in Rule 12.1.3, is not required to be sanctioned by a Court order to be effective if:

- (a) all of the Clients of the Authorised Firm who will be affected by the transfer scheme have consented to it;
- (b) the transfer scheme is expressly permitted under agreements between the Authorised Firm or transferee and the Clients of the Authorised Firm who will be affected by the scheme and any procedures in the agreements for giving effect to the scheme have been complied with; or
- (c) the DFSA has consented in writing to the transfer scheme under Rule 12.1.5.

**12.1.5** (1) An Authorised Firm or transferee may apply in writing to the DFSA seeking its consent to a transfer scheme.

- (2) The DFSA may consent in writing to the transfer scheme if it is reasonably satisfied that:
  - (a) the scheme is not a transfer scheme referred to in Rule 12.1.3;
  - (b) it is more appropriate and proportionate, and in the overall interests of Clients affected by the scheme, for the Authorised Firm or transferee to seek the DFSA's consent rather than applying to the Court for an order sanctioning the scheme;
  - (c) the Authorised Firm or transferee has taken all reasonable steps to pursue other options for giving effect to the scheme;
  - (d) the scheme is not likely to result in any material prejudice to the interests of Clients of the Authorised Firm; and
  - (e) implementation of the scheme will not result in the Authorised Firm or transferee contravening any applicable law or Rule.
- (3) The procedures in Schedule 3 to the Law apply to a decision of the DFSA under (2) to refuse to give its consent to a transfer scheme.
- (4) If the DFSA decides to refuse to give its consent under this Rule, the Authorised Firm may refer the matter to the FMT for review.

**Guidance**

1. The DFSA expects to receive applications seeking its consent to a transfer scheme only in limited circumstances, and if the scheme is not complex or contentious. If a scheme is likely to be contentious or complex, then it is more appropriate for an application to be made to the Court.

2. The DFSA will not give its consent unless the applicant can demonstrate that it has taken all reasonable steps to pursue other options for implementing the scheme, such as seeking the consent of affected Clients or using existing agreements with Clients.
3. The DFSA also will not give its consent in cases such as where:
  - (a) the transfer scheme is likely to materially prejudice the interests of Clients;
  - (b) due to the complexity of the transfer scheme it is unclear what the precise impact of the scheme will be on Clients or whether it will be legally effective; or
  - (c) implementation of the transfer scheme will result in the Authorised Firm or transferee breaching a requirement in a law or Rule, for example, if the transferee does not have the necessary authorisation to conduct that business or if the transfer will result in the Authorised Firm or transferee breaching a prudential requirement.
4. The type of case where the DFSA anticipates giving its consent to a transfer scheme is where the scheme is relatively simple and the applicant has taken all reasonable steps to pursue other options but has been unable to complete the necessary processes because, for example, a small number of Clients do not respond.

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## APP1 DEPOSITS

### A1.1 Definition of a deposit

- A1.1.1** (1) A Deposit means a sum of money paid on terms:
- (a) under which it will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the Person making the payment and the Person receiving it; and
  - (b) which is not referable to the provision of property (other than currency) or services or the giving of security.
- (2) In (1) money is paid on terms which are referable to the provision of property or services or the giving of security if:
- (a) it is paid by way of advance or part payment under a contract for the sale, hire or other provision of property or services, and is repayable only in the event that the property or services are not in fact sold, hired or otherwise provided;
  - (b) it is paid by way of security for the performance of a contract or by way of security in respect of loss which may result from the non-performance of a contract; or
  - (c) without prejudice to (b), it is paid by way of security for the delivery up of property, whether in a particular state of repair or otherwise.

#### Exclusions

- A1.1.2** A sum is not a Deposit if it is paid:
- (a) by a Person in the course of carrying on a business consisting wholly or to a significant extent of lending money;
  - (b) by one company to another at a time when both are members of the same Group;
  - (c) by an Authorised Firm authorised under its Licence to carry on the following Financial Services:
    - (i) Accepting Deposits;
    - (ii) Effecting Contracts of Insurance; or
    - (iii) Carrying Out Contracts of Insurance; or
  - (d) by a Person who is a close relative of the Person receiving it or who is a director, manager or Controller of that Person.

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**A1.1.3** A sum is not a Deposit if it is received:

- (a) by a lawyer registered as an Ancillary Service Provider and acting in his professional capacity;
- (b) by an accountant registered as an Ancillary Service Provider and acting in his professional capacity;
- (c) by an Authorised Firm or an Authorised Market Institution authorised under its Licence to carry on any one or more of the following Financial Services:
  - (i) Dealing in Investments as Principal;
  - (ii) Dealing in Investments as Agent;
  - (iii) Arranging Credit or Deals in Investments;
  - (iv) Managing Assets;
  - (v) Operating a Collective Investment Fund;
  - (vi) Effecting Contracts of Insurance;
  - (vii) Carrying Out Contracts of Insurance;
  - (viii) Operating an Exchange;
  - (ix) Operating a Clearing House;
  - (x) Insurance Broking;
  - (xi) Insurance Management;
  - (xii) Managing a Profit Sharing Investment Account; or
  - (xiii) Providing Trust Services.

in the course of or for the purpose of any such Financial Service disregarding any applicable exclusions in chapter 2; or

- (d) by a Person as consideration for the issue by him of a Debenture.

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## APP2 INVESTMENTS

### A2.1 General definition of investments

#### Investments

- A2.1.1** (1) An Investment is, subject to (3), either:
- (a) a Security; or
  - (b) a Derivative,
- as defined in Rule A2.1.2 or Rule A2.1.3.
- (2) Such a Security or Derivative includes:
- (a) a right or interest in the relevant Security or Derivative; and
  - (b) any instrument declared as a Security or Derivative pursuant to Rule A2.4.1(1).
- (3) Where a Rule provides that a Security or Derivative has a different classification for a specified purpose, it shall have that effect for that specified purpose and no other purpose.

#### Guidance

An example of the application of Rule A2.1.1 (3) is Rule A2.1.2(2), where a Derivative is treated as a Security for the purposes of the requirements in PIB.

#### Security

- A2.1.2** (1) For the purposes of Rule A2.1.1(1)(a), a Security is:
- (a) a Share;
  - (b) a Debenture;
  - (c) a Warrant;
  - (d) a Certificate;
  - (e) a Unit; or
  - (f) a Structured Product.
- (2) For the purposes of the requirements in PIB, each Derivative specified in Rule A2.1.3 is to be treated as a Security.

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**Derivative**

**A2.1.3** For the purposes of Rule A2.1.1(1)(b), a Derivative is:

- (a) an Option; or
- (b) a Future.

**A2.2 Definitions of specific securities**

**A2.2.1** For the purposes of Rule A2.1.2:

**Shares**

- (a) a Share is a share or stock in the share capital of any Body Corporate or any unincorporated body but excluding a Unit;

**Debentures**

- (b) a Debenture is an instrument creating or acknowledging indebtedness, whether secured or not, but excludes:
  - (i) an instrument creating or acknowledging indebtedness for, or for money borrowed to defray, the consideration payable under a contract for the supply of goods or services;
  - (ii) a cheque or other bill of exchange, a banker's draft or a letter of credit (but not a bill of exchange accepted by a banker);
  - (iii) a banknote, a statement showing a balance on a bank account, or a lease or other disposition of property; and
  - (iv) a Contract of Insurance;

**Guidance**

1. A Debenture may include a bond, debenture stock, loan stock or note. Certain Islamic products ("Sukuk") structured as a debt instrument can also fall within this definition.
2. If the interest or financial return component on a debt instrument is to be calculated by reference to fluctuations of an external factor such as an index, exchange rate or interest rate, that does not prevent such an instrument being characterised as a Debenture.

**Warrants**

- (c) a Warrant is an instrument that confers on the holder a right entitling the holder to acquire an unissued Share, Debenture or Unit;



**Guidance**

A Warrant confers on the holder an entitlement (but not an obligation) to acquire an unissued Share, Debenture or Unit, thereby distinguishing it from a call Option which entitles the holder, upon exercise, to acquire an already issued (i.e. existing) Security.

**Certificates**

- (d) a Certificate is an instrument:
- (i) which confers on the holder contractual or property rights to or in respect of a Share, Debenture, Unit or Warrant held by a Person; and
  - (ii) the transfer of which may be effected by the holder without the consent of that other Person;

but excludes rights under an Option;

**Guidance**

Certificates confer rights over existing Shares, Debentures, Units or Warrants held by a Person and include receipts, such as Global Depository Receipts (i.e. GDRs).

**Units**

- (e) a Unit is a unit in or a share representing the rights or interests of a Unitholder in a Fund; and

**Structured Products**

- (f) a Structured Product is an instrument comprising rights under a contract where:
- (i) the gain or loss of each party to the contract is ultimately determined by reference to the fluctuations in the value or price of property of any description, an index, interest rate, exchange rate or a combination of any of these as specified for that purpose in the contract (“the underlying factor”) and is not leveraged upon such fluctuations;
  - (ii) the gain or loss of each party is wholly settled by cash or set-off between the parties;
  - (iii) each party is not exposed to any contingent liabilities to any other counterparty; and
  - (iv) there is readily available public information in relation to the underlying factor;

but excludes any rights under an instrument:

- (v) where one or more of the parties takes delivery of any property to which the contract relates;
- (vi) which is a Debenture; or

- (vii) which is a Contract of Insurance.

**Guidance**

1. Instruments previously known as Designated Investments are now included within the definition of Structured Products.
2. The reference in Rule A2.2.1(f)(i) to “property of any description” covers tangible or intangible property, including Securities.

## **A2.3 Definitions of specific derivatives**

### **A2.3.1** For the purposes of Rule A2.1.3:

**Options**

- (a) An Option is an instrument that confers on the holder, upon exercise, rights of the kind referred to in any of the following:
  - (i) a right to acquire or dispose of:
    - (A) a Security (other than a Warrant) or contractually based investment;
    - (B) currency of any country or territory;
    - (C) a commodity of any kind;
  - (ii) a right to receive a cash settlement, the value of which is determined by reference to:
    - (A) the value or price of an index, interest rate or exchange rate; or
    - (B) any other rate or variable; or
  - (iii) a right to acquire or dispose of another Option under (i) or (ii).

**Guidance**

1. For example, a call Option confers on the holder, upon exercise, a right but not an obligation to acquire an issued (i.e. existing) Security, thereby distinguishing it from a Warrant which entitles the holder, upon exercise, to acquire an unissued Share, Debenture or Unit.
2. Options over a ‘contractually based investment’ referred to in Rule A2.3.1(a)(i)(A) covers Options over Futures.
3. Cash settled Options such as Index Options are covered under Rule A2.3.1(a)(ii). Other cash settled Options that are covered under this Rule include instruments which confer rights determined by reference to climatic variables, inflation or other official economic statistics, freight rates or emission allowances.
4. Options over Options are covered under A2.3.1(a)(iii).

## **Futures**

- (b) a Future is an instrument comprising rights under a contract:
  - (i) for the sale of a commodity or property of any other description under which delivery is to be made at a future date and at a price agreed on when the contract is made, and that contract:
    - (A) is made or traded on a regulated exchange;
    - (B) is made or traded on terms that are similar to those made or traded on a regulated exchange; or
    - (C) would, on reasonable grounds, be regarded as made for investment and not for commercial purposes; or
  - (ii) where the value of the contract is ultimately determined by reference, wholly or in part, to fluctuations in:
    - (A) the value or price of property of any description; or
    - (B) an index, interest rate, any combination of these, exchange rate or other factor designated for that purpose in the contract; and

which is wholly settled by cash or set-off between the parties but excludes:

- (C) rights under a contract where one or more of the parties takes delivery of any property to which the contract relates;
- (D) a contract under which money is received by way of deposit or an acknowledgement of a debt on terms that any return to be paid on the sum deposited or received will be calculated by reference to an index, interest rate, exchange rate or any combination of these or other factors; or
- (E) a Contract of Insurance.

## **Guidance**

1. An over the counter (OTC) contract may qualify as a Future under Rule A2.3.1(b)(i)(C) if it can reasonably be regarded as being made for investment and not for commercial purposes. Some of the indicative factors that such a contract is reasonably likely to be made for commercial rather than investment purposes include the following:
  - a. a party to the contract is the producer or a user of the underlying commodity;
  - b. the delivery of the underlying commodity is intended to take place within 7 days of the date of the contract;
  - c. there is no provision made in the contract for margin arrangements; and
  - d. the terms of the contract are not standardised terms.

2. A contract under Rule A2.3.1(b)(i) can provide for the physical delivery of the underlying commodity or property. Further, the price agreed under such a contract can be by reference to an underlying factor, such as by reference to an index or a spot price on a given date.
3. Contracts for differences (CFDs) fall under the definition in A2.3.1(b)(ii) and may include credit default swaps (CDSs) and forward rate agreements (FRAs). More exotic types of Derivative contracts may also fall within the definition in A2.3.1(b)(ii). These can include weather or electricity derivatives where the underlying factor by reference to which the parties' entitlements are calculated can be the number of days in a period in which the temperature would reach below or above a specified level.

## **A2.4 Financial instrument declared as an investment**

- A2.4.1**
- (1) The DFSA may, subject to (5), declare by written notice any financial instrument or class of financial instruments to be a particular type of an existing Security or Derivative as defined in these Rules or a new type of a Security or Derivative. It may do so on such terms and conditions as it considers appropriate.
  - (2) The DFSA may exercise the power under (1) either upon written application made by a Person or on its own initiative.
  - (3) Without limiting the generality of the matters that the DFSA may consider when exercising its power under (1), it must consider the following factors:
    - (a) the economic effect of the financial instrument or class of financial instruments;
    - (b) the class of potential investors to whom the financial instrument is intended to be marketed;
    - (c) the treatment of similar financial instruments for regulatory purposes in other jurisdictions; and
    - (d) the possible impact of such a declaration on any person issuing or marketing such a financial instrument.
  - (4) A Person who makes an application for a declaration under (1) must address, as far as practicable, the factors specified in (3).
  - (5) The DFSA must publish any proposed declaration under (1) for public consultation for at least 30 days from the date of publication, except where:
    - (a) it declares a financial instrument to be a particular type of an existing Security or Derivative;
    - (b) it determines that any delay likely to result from public consultation is prejudicial to the interests of the DIFC; or

- (c) it determines that there is a commercial exigency that warrants such a declaration being made without any, or shorter than 30 day, public consultation.

**Guidance**

1. The terms and conditions that may be imposed on a declaration made by the DFSA under Rule A2.4.1(1) can include who should be the Reporting Entity and the type of disclosure requirements that should apply to that Reporting Entity.
2. If any issuer of a new financial instrument has any doubt as to whether that instrument can be included in an Official List of Securities as a particular type of a Security, that Person should first raise those issues with the relevant Authorised Market Institution before making an application to the DFSA for the exercise of the declaration power under this Rule. The DFSA has a discrete power to object to any proposed inclusion of a Security in an Official List of Securities of an Authorised Market Institution (see Article 34(1) of the Markets Law 2012).

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## **APP3 BEST PRACTICE RELATING TO CORPORATE GOVERNANCE AND REMUNERATION**

### **A3.1 Best practice relating to corporate governance**

#### **Guidance**

#### **Roles of the Governing Body and the senior management**

1. The Governing Body should adopt a rigorous process for setting and approving and overseeing the implementation of, the Authorised Person's overall business objectives and risk strategies, taking into account the long term financial safety and soundness of the firm as a whole, and the protection of its customers and stakeholders. These objectives and strategies should be adequately documented and properly communicated to the firm's senior management, Persons Undertaking Key Control Functions (such as the heads of risk management and compliance) and all the other relevant Employees. Senior management should ensure the effective implementation of such strategies in carrying out the day-to-day management of the Authorised Person's business.
2. The Governing Body, with the support of the senior management, should take a lead in setting the "tone at the top", including by setting the fundamental corporate values that should be pursued by the Authorised Person. These should, to the extent possible, be supported by professional standards and codes of ethics that set out acceptable and unacceptable conduct. Such professional standards and codes of ethics should be clearly communicated to those individuals involved in the conduct of business of the firm.
3. The Governing Body should review the overall business objectives and strategies at appropriate intervals (at least annually) to ensure that they remain suitable in light of any changes in the internal or external business and operating conditions.
4. The Governing Body should also ensure that the senior management is effectively discharging the day-to-day management of the Authorised Person's business in accordance with the business objectives and strategies that have been set or approved by the Governing Body. For this purpose, the Governing Body should ensure that there are clear and objective performance goals and measures (and an objective assessment against such criteria at reasonable intervals), for the Authorised Person and the members of its Governing Body and the senior management to ascertain whether the firm's business objectives and risk strategies are implemented effectively and as intended.

#### **Internal governance of the Governing Body**

5. The Governing Body should have appropriate practices and procedures for its own internal governance, and ensure that these are followed, and periodically reviewed to ensure their effectiveness and adequacy. These policies and procedures should cover a formal and transparent process for nomination, selection, and removal of the members of the Governing Body (see paragraph 2.2.14 of the RPP Sourcebook), and a specified term of office as appropriate to the roles and responsibilities of the member, particularly to ensure the objectivity of his decision making and judgement. Appropriate succession planning should also form part of the Governing Body's internal governance practices.
6. The Governing Body should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The working procedures of the Governing Body should be well defined.
7. The Governing Body should also ensure that when assessing the performance of the members of the Governing Body and its senior managers and Persons Undertaking Key Control Functions, the independence and objectivity of that process is achieved

through appropriate mechanisms, such as the assignment of the performance assessment to an independent member of the Governing Body or a committee of the Governing Body comprising a majority of independent members. See paragraph 2.2.15(b)(iii) of the RPP Sourcebook for the independence criteria for Authorised Firms and paragraphs 2.2.16 and 2.2.18 of the RPP Sourcebook for the independence criteria for Authorised Market Institutions.

### **Committees of the Governing Body**

8. To support the effective discharge of its responsibilities, the Governing Body should establish its committees as appropriate. The committees that a Governing Body may commonly establish, depending on the nature, scale and complexity of its business and operations, include the audit, remuneration, ethics/compliance, nominations and risk management committees. Where committees are appointed, they should have clearly defined mandates, authority to carry out their respective functions, and the degree of independence and objectivity as appropriate to the role of the committee. If the functions of any committees are combined, the Governing Body should ensure such a combination does not compromise the integrity or effectiveness of the functions so combined. In all cases, the Governing Body remains ultimately responsible for the matters delegated to any such committees.

### **Independence and objectivity**

9. The Governing Body should establish clear and objective independence criteria which should be met by a sufficient number of members of the Governing Body to promote objectivity and independence in decision making by the Governing Body. See paragraph 2.2.15(b)(iii) of the RPP Sourcebook for independence criteria).

### **Powers of the Governing Body**

10. To be able to discharge its role and responsibilities properly, the Governing Body should have adequate and well-defined powers, which are clearly set out either in the legislation or as part of the constituent documents of the Authorised Person (such as the constitution, articles of incorporation and organisational rules). These should, at a minimum, include the power to obtain timely and comprehensive information relating to the management of the firm, including direct access to relevant persons within the organisation for obtaining information such as its senior management and Persons Undertaking Key Control Functions (such as the head of compliance, risk management or internal audit).

### **Role of user committees**

11. An Authorised Market Institution should consider all relevant stakeholders' interests, including those of its Members and other participants, and issuers, in making major decisions, such as those relating to its system's design, overall business strategy and rules and procedures. An Authorised Market Institution which has cross-border operations should ensure that full range of views across jurisdictions in which it operates is appropriately considered in its decision-making process.
12. In some instances, an Authorised Market Institution may be required under the applicable Rules to undertake public consultation in relation to certain matters, such as any proposed amendments to its Business Rules under AMI Rule 5.6.5.
13. Effective mechanisms for obtaining stakeholder input to the Authorised Market Institution's decision-making process, including where such input is mandatory, include the establishment of, and consultation with, user committees. As opinions among interested parties are likely to differ, an Authorised Market Institution should have clear processes for identifying and appropriately managing the diversity of stakeholder views and any conflicts of interest between stakeholders and the Authorised Market Institution.

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14. Where an Authorised Market Institution establishes user committees to obtain stakeholder input to its decision making, to enable such committees to be effective, an Authorised Market Institution should structure such committees to:
    - a. have adequate representation of the Authorised Market Institution's Members and other participants, and stakeholders including issuers. The other stakeholders of an Authorised Market Institution may include clients of its Members or participants, custodians and other service providers;
    - b. have direct access to the members of the Authorised Market Institution's Governing Body and members of the senior management as appropriate;
    - c. not be subject to any direct or indirect influence by the senior management of the Authorised Market Institution in carrying out their functions; and
    - d. have clear terms of reference (mandates) which include matters on which the advice of user committees will be sought. For example, the criteria for selecting Members, setting service levels and pricing structures and for assessing the impact on Members and other stakeholders of any proposed material changes to the Authorised Market Institution's existing arrangements (section 4.3 of AMI) and any amendments to its Business Rules (AMI Rule 5.6.4); and
    - e. have adequate internal governance arrangements (such as the regularity of committee meetings and the quorum and other operational procedures).

## **A3.2 Best practice relating to remuneration**

### **Guidance**

#### **Development and monitoring of the remuneration structure**

1. To ensure that the remuneration structure and strategies of the Authorised Person are appropriate to the nature, scale and complexity of the Authorised Person's business, the Governing Body should take account of the risks to which the firm could be exposed as a result of the conduct or behaviour of its Employees. The Governing Body should play an active role in developing the remuneration strategy and policies of the Authorised Person. A remuneration committee of the Governing Body could play an important role in the development of the firm's remuneration structure and strategy.
2. For this purpose, particularly where remuneration structure and strategies contain performance based remuneration (see also Guidance no 7 and 8 below), consideration should be given to various elements of the remuneration structure such as:
  - a. the ratio and balance between the fixed and variable components of remuneration and any other benefits;
  - b. the nature of the duties and functions performed by the relevant Employees and their seniority within the firm;
  - c. the assessment criteria against which performance based components of remuneration are to be awarded; and
  - d. the integrity and objectivity of the process of performance assessment against the set criteria.



3. Generally, not only the senior management but also the Persons Undertaking Key Control Functions should be involved in the remuneration policy-setting and monitoring process to ensure the integrity and objectivity of the process.

#### **Who should be covered by remuneration policy**

4. An Authorised Person's remuneration policy should, at a minimum, cover those specified in Rule 5.3.31(1)(c). Accordingly, the members of the Governing Body, the senior management, the Persons Undertaking Key Control Functions and any major risk taking Employees should be included in the firm's remuneration policy. With the exception of the 'senior management', all the other three categories attract their own definitions. Although the expression "senior management" carries its natural meaning, Rule 5.3.30(3) describes the senior management's role as the "day-to-day management of the firm's business..." Guidance No. 3 under Rule 5.3.3 gives further clarification as to who may perform senior management functions.

#### **Remuneration of Persons Undertaking Key Control Functions**

5. Any performance based component of remuneration of Persons Undertaking Key Control Functions as well as other Employees undertaking activities under the direction and supervision of those Persons should not be linked to the performance of any business units which are subject to their control or oversight. For example, where risk and compliance functions are embedded in a business unit, a clear distinction should be drawn between the remuneration structure applicable to those Persons Undertaking Key Control Functions and the Employees undertaking activities under their direction and supervision on the one hand and the other Employees in the business unit on the other hand. This may be achieved by separating the pools from which remuneration is paid to the two groups of Employees, particularly where such remuneration comprises performance based variable remuneration.

#### **Use of variable remuneration**

6. Where an Authorised Person includes in its remuneration structure performance based variable components (such as bonuses, equity participation rights such as share based awards or other benefits), especially if they form a significant portion of the overall remuneration structure, or remuneration of any particular Employees or class of Employees, the Governing Body should ensure that there are appropriate checks and balances relating to their award. This is because, while such performance based remuneration is an effective tool in aligning the interests of the Employees with the interests of the firm, if used without necessary checks and balances, it could lead to inappropriate risk taking by Employees.
7. Therefore, the Governing Body should, when using any performance based variable component in the Authorised Person's remuneration structure, ensure that:
  - a. the overall remuneration structure contains an appropriate mix of fixed and variable components. For example, if the fixed component of remuneration of an Employee is very small relative to the variable (eg. bonus) component, it may become difficult for the firm to reduce or eliminate bonuses even in a poor performing financial year;
  - b. there are clear and objective criteria for allocating performance based remuneration (see below in Guidance note (7));
  - c. there are appropriate adjustments for the material 'current' and 'future' risks associated with the performance of the relevant Employee, as the time horizon in which risks could manifest themselves may vary. For example, where practicable, the measurement of performance should be set in a multi-year framework. If this is not practicable, there should be deferral of vesting of the benefits or retention or claw-back arrangements applicable to such components as appropriate;

- d. there are appropriate prudential limits, consistent with the Authorised Person's capital management strategy and its ability to maintain a sound capital base taking account of the internal capital targets or regulatory capital requirements;
- e. in the case of Employees involved in the distribution of financial products whose remuneration is commission based, there are adequate controls and monitoring to mitigate marketing which is solely commission driven; and
- f. the use of guaranteed bonuses is generally avoided as such payments are not consistent with sound risk management and performance based rewards. However, there may be circumstances where such guaranteed bonuses may be paid to attract new Employees (for example to compensate bonuses forfeited from the previous employer).

#### **Performance assessment**

- 8. The performance criteria applicable, particularly relating to the variable components of remuneration, as well as the performance assessment against such criteria, contribute to the effectiveness of the use of performance based remuneration. Therefore, the Governing Body should ensure that such criteria:
  - a. are clearly defined and objectively measurable;
  - b. include not only financial but also non-financial elements as appropriate (such as compliance with regulation and internal rules, achievement of risk management goals as well as compliance with market conduct standards and fair treatment of customers);
  - c. take account of not only the individual's performance, but also the performance of the business unit concerned and the overall results of the firm and if applicable the Group; and
  - d. do not treat growth or volume as an element in isolation from other performance measurements included in the criteria.

#### **Severance payments**

- 9. Where an Authorised Person provides discretionary payouts on termination of employment ("severance payments", also called "golden parachutes"), such payment should generally be subject to appropriate limits or shareholder approval. In any case, such payouts should be aligned with the firm's overall financial condition and performance over an appropriate time horizon and should not be payable in the case of failure or threatened failure of the firm, particularly to an individual whose actions may have contributed to the failure or potential failure of the firm.

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## **APP4 CONTRACTS OF INSURANCE**

### **A4.1 Definition of a contract of insurance**

**A4.1.1** A Contract of Insurance means any contract of insurance or contract of reinsurance.

**A4.1.2** The classes of life insurance are as follows:

#### **Class I – Life and annuity**

- (a) Contracts of insurance on human life or contracts to pay annuities on human life, but excluding, in each case, contracts within (c).

#### **Class II – Marriage and birth**

- (b) Contracts of insurance to provide a sum on marriage or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.

#### **Class III – Linked long term**

- (c) Contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

#### **Class IV – Permanent health**

- (d) Contracts of insurance providing specified benefits against risks of individuals becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that:
- (i) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the individuals concerned, or without limit of time; and
  - (ii) either are not expressed to be terminable by the Insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract.

#### **Class V - Tontines**

- (e) Tontines.

#### **Class VI - Capital redemption**

- (f) Contracts, other than contracts in (a) to provide a capital sum at the end of a term.

**Class VII – Pension fund management**

- (g) (i) pension fund management contracts; or
- (ii) contracts of the kind mentioned in (i) that are combined with contracts of insurance covering either conservation of capital or payment of a minimum interest.

**A4.1.3** The classes of non-life insurance are as follows:

**Class 1 – Accident**

- (a) Contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity, or a combination of both, against risks of the Person insured:
  - (i) sustaining injury as the result of an accident or of an accident of a specified class;
  - (ii) dying as the result of an accident or of an accident of a specified class; or
  - (iii) becoming incapacitated in consequence of disease or of disease of a specified class;

inclusive of contracts relating to industrial injury and occupational disease.

**Class 2 – Sickness**

- (b) Contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity, or a combination of the two, against risks of loss to the Persons insured attributable to sickness or infirmity.

**Class 3 – Land vehicles**

- (c) Contracts of insurance against loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock.

**Class 4 – Marine, aviation and transport**

- (d) Contracts of insurance:
  - (i) against loss of or damage to railway rolling stock;
  - (ii) upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft;
  - (iii) upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels; or
  - (iv) against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.

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**Class 5 – Fire and other property damage**

- (e) Contracts of insurance against loss of or damage to property, other than property to which classes 3 and 4 relate, due to fire, explosion, storm, natural forces other than storm, nuclear energy, land subsidence, hail, frost or any event, such as theft.

**Class 6 – Liability**

- (f) Contracts of insurance against risks of the Persons insured incurring liabilities to third parties, including risks of damage arising out of or in connection with the use of motor vehicles on land, aircraft and vessels on the sea or on inland water, including third-party risks and carrier's liability.

**Class 7a – Credit**

- (g) contracts of insurance against risks of loss to the Persons insured arising from the insolvency of debtors of theirs or from the failure, otherwise than through insolvency, of debtors of theirs to pay their debts when due;

**Class 7b – Suretyship**

- (h)
  - (i) contracts of insurance against risks of loss to the Persons insured arising from their having to perform contracts of guarantee entered into by them; or
  - (ii) contracts for fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee.

**Class 8 – Other**

- (i) Contracts of Insurance:
  - (i) against risks of loss to the Persons insured attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on;
  - (ii) against risks of loss to the Persons insured attributable to their incurring unforeseen expense;
  - (iii) against risks of loss to the Persons insured attributable to their incurring legal expenses, including costs of litigation; and
  - (iv) providing assistance, whether in cash or in kind, for Persons who get into difficulties, whether while travelling, while away from home, while away from their permanent residence, or otherwise.

## APP5 TRADE REPOSITORY

### A5.1 Requirements applicable to Trade Repositories

#### Disclosure of market data by Trade Repositories

**A5.1.1** A Trade Repository must provide data in line with regulatory and industry expectations to relevant regulatory authorities and the public. Such information must be comprehensive and at a level of detail sufficient to enhance market transparency and support other public policy objectives.

##### Guidance

1. At a minimum, a Trade Repository should provide aggregate data on open positions and transaction volumes and values and categorised data (for example, aggregated breakdowns of trading counterparties, reference entities, or currency breakdowns of products), as available and appropriate, to the public.
2. Relevant regulatory authorities should be given access to additional data recorded in a Trade Repository, including participant-level data, as relevant to the respective mandates and legal responsibilities of the relevant regulatory authority (such as market regulation and surveillance, oversight of exchanges, and prudential supervision or prevention of market misconduct).

#### Processes and procedures

**A5.1.2** A Trade Repository must have effective processes and procedures to provide data to relevant authorities in a timely and appropriate manner to enable them to meet their respective regulatory mandates and legal responsibilities.

##### Guidance

A Trade Repository should have procedures to facilitate enhanced monitoring, special actions, or official proceedings taken by relevant authorities in relation to data on troubled or failed participants by making relevant information in the Trade Repository available in a timely and effective manner. The provision of data from a Trade Repository to relevant authorities should be supported from a legal, procedural, operational, and technological perspective.

#### Information systems

**A5.1.3** A Trade Repository must have robust information systems that enable it to provide accurate current and historical data. Such Data should be provided in a timely manner and in a format that permits it to be easily analysed.

##### Guidance

A Trade Repository should collect, store, and provide data to participants, regulatory authorities, and the public in a timely manner and in a format that can facilitate prompt analysis. Data should be made available that permits both comparative and historical analysis of the relevant markets.