

**Appendix 11**

In this Appendix underlining indicates new text and striking through indicates deleted text.

Some text that is not being amended is included for information only.



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# The DFSA Rulebook

Prudential – Investment, Insurance  
Intermediation and  
Banking Module

**(PIB)**

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## **1 APPLICATION, INTERPRETATION AND CATEGORISATION**

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### **1.3 Categories of Authorised Firms**

#### **Guidance**

1. Authorised Firms are divided into Categories to provide a clear framework for determining which specific Rules in PIB apply to each Authorised Firm. The Rules in this section enable an Authorised Firm to determine into which Category it falls.
2. The table in A1.1 of App1 sets out the categorisation process diagrammatically. In that table, an emboldened box indicates the Financial Service that is determinative of the Category into which an Authorised Firm falls. An Authorised Firm may, if authorised under its Licence to do so, conduct any number of Financial Services specified under any lower Category than the one that applies to the Authorised Firm in accordance with this section (For this purpose Category 5 is considered to be equivalent to Category 1). For example, a Category 1 firm could conduct any of the Financial Services specified under Categories 2, 3A, 3B, 3C, 3D or 4 (if authorised to do so). However, a Category 4 firm may only conduct any of the Financial Services listed under Category 4 for which it is authorised.

#### **Category 1**

##### **1.3.1** An Authorised Firm is in Category 1 if:

- (a) its Licence authorises it to carry on one or more of the Financial Services of Accepting Deposits or Managing a PSIAu; and
- (b) it does not meet the criteria of Category 5.

#### **Guidance**

A Category 1 Authorised Firm may be authorised to conduct other Financial Services, but it is the authorisation for Accepting Deposits or Managing a PSIAu that is determinative of its belonging to Category 1.

#### **Category 2**

##### **1.3.2** An Authorised Firm is in Category 2 if:

- (a) its Licence authorises it to carry on one or more of the Financial Services of Providing Credit or Dealing in Investments as Principal; and
- (b) its dealing activities are not limited in scope as provided in Rule 1.3.3(1)(a)(i); and
- (c) it does not meet the criteria of Categories 1 or 5.

**Guidance**

1. A Category 2 Authorised Firm may be authorised to conduct other Financial Services, but it is the authorisation for Dealing in Investments as Principal (not only as a Matched Principal) or authorisation for Providing Credit, and the absence of authorisation for the activities specified in Rule 1.3.1, that are determinative of its belonging to Category 2.
2. Where the dealing activities of a firm are limited to acting only as Matched Principal, the activities fall in the scope of Category 3A in accordance with Rule 1.3.3(1). A definition of “Matched Principal” is in Rule 1.3.3(2).

**Category 3A**

- 1.3.3** (1) An Authorised Firm is in Category 3A if:
- (a) its Licence authorises it to carry on one or more of the Financial Services of:
    - (i) Dealing in Investments as Principal (where it does so only as a Matched Principal); or
    - (ii) Dealing in Investments as Agent; and
  - (b) it does not meet the criteria of Categories 1, 2 or 5.
- (2) For the purposes of PIB, an Authorised Firm Deals in Investments as a “Matched Principal” if:
- (a) it enters into transactions as a principal only for the purpose of fulfilling its Clients’ orders;
  - (b) it holds positions for its own account (“positions”) only as a result of a failure to match Clients’ orders;
  - (c) the total market value of the positions it holds is no more than 15% of the Firm’s Tier 1 Capital Resources; and
  - (d) the positions are incidental in nature and are strictly limited to the time reasonably required to carry out a transaction of that nature.

**Guidance**

A Category 3A Authorised Firm may be authorised to conduct other Financial Services, but it is the authorisation for Dealing in Investments as Agent, or authorisation for Dealing in Investments as Principal where it does so as a Matched Principal, and the absence of authorisation for the activities specified in Rules 1.3.1 and 1.3.2 that are determinative of its belonging to Category 3A.

**Category 3B**

- 1.3.4** An Authorised Firm is in Category 3B if:
- (a) its Licence authorises it to carry on one or more of the Financial Services of:

- (i) Providing Custody (where it does so for a Fund or Provides Custody of Crypto Assets); or
  - (ii) Acting as the Trustee of a Fund;
  - (iii) Operating an Employee Money Purchase Scheme; or
  - (iv) Acting as the Administrator of an Employee Money Purchase Scheme; and
- (b) it does not meet the criteria of Categories 1, 2, 3A or 5.

**Guidance**

A Category 3B Authorised Firm may be authorised to conduct other Financial Services, but it is the authorisation for Providing Custody for a Fund, Providing Custody of Crypto Assets, Acting as Trustee of a Fund or Operating or Acting as the Administrator of an Employee Money Purchase Scheme, and the absence of authorisation for the activities specified in Rules 1.3.1, 1.3.2 and 1.3.3 that are determinative of its belonging to Category 3B.

**Category 3C**

**1.3.5** An Authorised Firm is in Category 3C if:

- (a) its Licence authorises it to carry on one or more of the Financial Services of:
  - (i) Managing Assets;
  - (ii) Managing a Collective Investment Fund;
  - (iii) Providing Custody (where it does so other than for a Fund and other than in relation to Crypto Assets);
  - (iv) Managing a PSIA (which is a PSIAr);
  - (v) Providing Trust Services (where it is acting as trustee in respect of at least one express trust); or
  - (vi) Providing Money Services (where it issues Stored Value); and
- (b) it does not meet the criteria of Categories 1, 2, 3A, 3B or 5.

**Guidance**

A Category 3C Authorised Firm may be authorised to conduct other Financial Services, but it is the authorisation for Managing Assets, Managing a Collective Investment Fund, Providing Custody other than for a Fund or in relation to Crypto Assets, Managing a PSIA which is a PSIAr, Providing Trust Services (where it is acting as a trustee in respect of at least one express trust), or Providing Money Services (where it issues Stored Value) and the absence of authorisation for the activities specified in Rules 1.3.1, 1.3.2, 1.3.3 and 1.3.4 that are determinative of its belonging to Category 3C.

**Category 3D**

**1.3.5A** An Authorised Firm is in Category 3D if:

- (a) its Licence authorises it to Provide Money Services and it:
  - (i) provides or operates a Payment Account;
  - (ii) executes a Payment Transaction on a Payment Account provided or operated by another Person; or
  - (iii) issues a Payment Instrument; and
- (b) it does not meet the criteria of Categories 1, 2, 3A, 3B, 3C or 5.

#### **Category 4**

**1.3.6** An Authorised Firm is in Category 4 if:

- (a) its Licence authorises it to carry on one or more of the Financial Services of Arranging Deals in Investments, Advising on Financial Products, Arranging Custody, Insurance Intermediation, Insurance Management, Operating an Alternative Trading System, Providing Fund Administration, Providing Trust Services (where it is not acting as trustee in respect of an express trust), Providing Money Services (where it only provides Money Transmission), Arranging Credit and Advising on Credit, Operating a Crowdfunding Platform or Arranging or Advising on Money Services; and
- (b) it does not meet the criteria of Categories 1, 2, 3A, 3B, 3C, 3D or 5.

#### **Guidance**

An Authorised Firm in Category 4 may not be authorised to conduct any other Financial Service beyond those listed in Rule 1.3.6(a); if it were so authorised it would belong to another Category.

#### **Category 5**

**1.3.7** An Authorised Firm is in Category 5 if it:

- (a) is an Islamic Financial Institution; and
- (b) Manages a PSIAu.

#### **Guidance**

Authorised Firms in Categories 1 to 4 may also carry out Islamic Financial Business, but only those Authorised Firms in Categories 1 or 5 may Manage a PSIAu. They will not fall within Category 5 unless the whole of the business is conducted in accordance with Shari'a and they Manage a PSIAu.

## 3 CAPITAL

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### PART 3 – Calculating the Capital Requirement

#### 3.3 Capital Requirements for Categories 1 and 5

**3.3.1** This section applies to an Authorised Firm in Category 1 or 5.

- 3.3.2** (1) The Capital Requirement for an Authorised Firm is calculated, subject to (2), as the higher of:
- (a) the applicable Base Capital Requirement; or
  - (b) its Risk Capital Requirement plus applicable Capital Buffer Requirements.
- (2) Where the Authorised Firm has an ICR imposed on it then the Capital Requirement is its ICR plus Risk Capital Requirement plus applicable Capital Buffer Requirements.

#### Guidance

1. An Authorised Firm should refer to chapters 4, 5 and 6 to determine whether it is required to calculate a Credit Risk Capital Requirement (also referred to in this module as CRCOM), a Market Risk Capital Requirement or an Operational Risk Capital Requirement, respectively.
2. The Displaced Commercial Risk Capital Requirement will only apply to an Authorised Firm Managing a PSIAu.
3. An Authorised Firm will also need to consider the relevant provisions in IFR chapter 5 when calculating its Credit Risk and Market Risk for Islamic Contracts.
4. If an Individual Capital Requirement is imposed on an Authorised Firm under Chapter 10, such a requirement is additional to the Risk Capital Requirement and is, therefore, a component of the Authorised Firms Capital Requirement.

#### 3.4 Capital Requirements for Categories 2 and 3A

**3.4.1** This section applies to an Authorised Firm in Category 2 or 3A.

- 3.4.2** (1) The Capital Requirement for an Authorised Firm is calculated, subject to (2), as the highest of:
- (a) the applicable Base Capital Requirement;
  - (b) the Expenditure Based Capital Minimum; or

- (c) its Risk Capital Requirement plus applicable Capital Buffer Requirements.
- (2) Where the Authorised Firm has an ICR imposed on it then the Capital Requirement is its ICR plus Risk Capital Requirement plus applicable Capital Buffer Requirements.

**Guidance**

1. An Authorised Firm should refer to chapters 4, 5 and 6 to determine whether it is required to calculate a Credit Risk Capital Requirement (also referred to in this module as CRCOM), a Market Risk Capital Requirement or an Operational Risk Capital Requirement, respectively.
2. An Authorised Firm will also need to consider the relevant provisions in IFR chapter 5 when calculating its Credit Risk and Market Risk for Islamic Contracts.
3. If the DFSA imposes an Individual Capital Requirement on an Authorised Firm under chapter 10, such a requirement is additional to the Risk Capital Requirement and is, therefore, a component of the Authorised Firms Capital Requirement.

### **3.5 Capital Requirements for Categories 3B, 3C and 4**

- 3.5.1** (1) This section applies to an Authorised Firm in Category 3B, 3C, 3D or 4.
- (2) Rules 3.5.2 and 3.5.3(1) do not apply to an Authorised Firm if the only Financial Service it carries on is Managing a Venture Capital Fund.

**3.5.2** The Capital Requirement for such an Authorised Firm is calculated as the highest of:

- (a) the applicable Base Capital Requirement as set out in section 3.6;
- (b) the Expenditure Based Capital Minimum as set out in section 3.7; or
- (c) in the case of a Money Services Provider:
  - (i) the Stored Value Capital Requirement, if it issues Stored Value;
  - (ii) the Transaction Based Capital Requirement, if it provides Payment Services; or
  - (iii) the aggregate of the sums referred to in (i) and (ii), if it carries on both activities.

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### **3.6 Base Capital Requirement**

- 3.6.1** This section applies to an Authorised Firm in any Category.

**Guidance**

1. The Base Capital Requirement is a component of the calculation of the Capital Requirement under sections 3.3, 3.4 and 3.5.
2. As the Base Capital Requirement in Rules 3.5.2 and 3.5.3 does not apply to an Authorised Firm that only manages Venture Capital Funds, this section also does not apply to such a firm.

**3.6.2** The table below sets out the Base Capital Requirement for each Category of an Authorised Firm.



Category	Base Capital Requirement
Category 1	US \$10 million
Category 2	US \$2 million
Category 3A	US \$500,000
Category 3B	<p style="text-align: center;">US \$4 million</p> <p>Except:</p> <p><u>(1) if the Authorised Firm is authorised to Provide Custody of Crypto Assets, in which case the Base Capital Requirement is US \$1 million; or</u></p> <p><u>(2) if the only Financial Service referred to in Rule 1.3.4 is Operating an Employee Money Purchase Scheme or Acting as the Administrator of an Employee Money Purchase Scheme, in which case the Base Capital Requirement is:</u></p> <p>(a) US \$500,000 for an Operator; or</p> <p>(b) US \$1 million for an Administrator.</p>
Category 3C	<p style="text-align: center;">US \$500,000</p> <p>Except if the only Financial Service referred to in Rule 1.3.5(a) that the Authorised Firm is authorised to carry on is Managing a Collective Investment Fund in which case its Base Capital Requirement is:</p> <p>(a) US \$140,000 if it manages any Public Fund; or</p> <p>(b) US \$70,000 otherwise.</p>
Category 3D	US \$200,000
Category 4	<p style="text-align: center;">US \$ 10,000</p> <p>Except if the Authorised Firm:</p> <p>(a) is authorised to Operate a Crowdfunding Platform and it holds Client Assets;</p> <p>(b) provides Money Transmission; or</p> <p>(c) is authorised to Operate an Alternative Trading System and it holds Client Assets,</p> <p>in which case its Base Capital Requirement is US \$140,000.</p>
Category 5	US \$10 million

**3.6.3** An Authorised Firm must have Common Equity Tier 1 Capital (CET1 Capital), as defined in section 3.13, of not less than its relevant Base Capital Requirement at the time that it obtains authorisation and at all times thereafter.

## 3.7 Expenditure Based Capital Minimum

### Guidance

As the Expenditure Based Capital Minimum in Rules 3.5.2 and 3.5.3(1) do not apply to an Authorised Firm that only Manages Venture Capital Funds, this section also does not apply to such a firm.

### 3.7.1 This section applies to an Authorised Firm in Category 2, 3A, 3B, 3C, 3D or 4.

### Guidance

The Expenditure Based Capital Minimum is a component of the calculation of the Capital Requirement under sections 3.4 and 3.5 and is a key factor in the calculation of the capital components under Rule 3.2.7.

### 3.7.2 An Authorised Firm must calculate its Expenditure Based Capital Minimum as:

- (a) subject to (b), in the case of an Authorised Firm that holds Client Assets or Insurance Monies or Acts as the Administrator of an Employee Money Purchase Scheme, 18/52;
- (b) in the case of an Insurance Intermediary that holds Insurance Monies but not Client Assets, 9/52;
- (c) in the case of an Authorised Firm in Category 2, 3A, 3B or 3C (unless it holds Client Assets or Insurance Monies or Acts as the Administrator of an Employee Money Purchase Scheme), 13/52;
- (d) in the case of an Authorised Firm in Category 3D, 9/52; or
- (e) in the case of an Authorised Firm in Category 4, (unless it holds Insurance Monies or Client Assets), 6/52;

of the Annual Audited Expenditure, calculated in accordance with Rule 3.7.3.

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## 6 OPERATIONAL RISK

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### 6.1 Application

**6.1.1** This chapter applies to an Authorised Firm as follows:

- (a) Sections 6.1 to 6.9 apply to an Authorised Firm in any Category;
- (b) Sections 6.10 and 6.11 apply only to an Authorised Firm in Category 1, 2, 3A or 5;
- (c) Section 6.12 applies only to an Authorised Firm in Category 3B, 3C, 3D or 4 which undertakes one or more of the following Financial Services:
  - (i) Arranging Deals in Investments;
  - (ii) Managing Assets;
  - (iii) Advising on Financial Products;
  - (iv) Managing a Collective Investment Fund;
  - (v) Providing Custody;
  - (vi) Insurance Intermediation;
  - (vii) Insurance Management;
  - (viii) Managing a Profit Sharing Investment Account (unrestricted);
  - (ix) Providing Trust Services;
  - (x) Providing Fund Administration;
  - (xi) Acting as the Trustee of a Fund;
  - (xii) Arranging Credit and Advising on Credit;
  - (xiii) Operating a Crowdfunding Platform;
  - (xiv) Operating an Employee Money Purchase Scheme;
  - (xv) Acting as the Administrator of an Employee Money Purchase Scheme;
  - (xvi) Providing Money Services;
  - (xvii) Arranging or Advising on Money Services; or

- (xviii) Operating an Alternative Trading System, if it holds Client Assets;
- (d) Section 6.13 applies only to an Authorised Firm that provides Money Services, Account Information Services or Payment Initiation Services.

**Guidance**

Section 5.3 of the GEN Module contains Rules and Guidance in relation to Systems and Controls, some of which may relate to the management of Operational Risk. The Corporate Governance rules in the GEN module set out overarching requirements in relation to Board responsibilities, including risk management. The Rules and Guidance in this section seek to complement the aforementioned requirements, while providing for a framework to address matters which directly relate to Operational Risk management.

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## **6.12 Professional indemnity insurance**

**6.12.1** This section applies to an Authorised Firm in Category 3B, 3C, 3D or 4 which undertake one or more of the Financial Services prescribed in Rule 6.1.1(c).

**6.12.2** An Authorised Firm must:

- (a) take out and maintain professional indemnity insurance cover appropriate to the nature, size, complexity and risk profile of the Authorised Firm's business;
- (b) at least annually, provide the DFSA with a copy of the professional indemnity insurance cover in (a) covering the following twelve month period; and
- (c) notify the DFSA of any material changes to the cover in (a), including the level of cover, its renewal or termination.

**Guidance**

1. In complying with Rule 6.12.2, an Authorised Firm should take out and maintain a contract for professional indemnity insurance (PII) from a reputable and well-capitalised insurer and such contract should include cover in respect of claims for which the Authorised Firm may be liable as a result of the conduct of itself and its Employees and appropriate cover in respect of legal costs arising from a claim.
2. Pursuant to Rule 6.4.1(c), an Authorised Firm should notify the DFSA of any significant PII claim made. What amounts to a significant claim will depend on the nature size and complexity of the Authorised Firm and the DFSA would expect the Authorised Firm to treat a series of small single claims which are significant in aggregate as significant for the purposes of Rule 6.4.1(c).
3. An Authorised Firm can fulfil the requirements under this section by ensuring coverage of its activities under a group-wide PII policy, provided that policy covers the Authorised Firm and its activities and that policy meets the conditions specified in this section. Where the Authorised Firm's group PII cover does not meet the requirements specified under this

section, the Authorised Firm will be required to obtain PII cover that meets those requirements.

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## 10 SUPERVISORY REVIEW AND EVALUATION PROCESSES

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### 10.3 IRAP

**10.3.1** This section applies to an Authorised Firm in Category 1, 2, 3A, 3B, 3C, 3D, 4 (if it provides Money Transmission, Account Information Services, or Payment Initiation Services or is an ATS Operator that holds Client Assets) or 5.

- 10.3.2**
- (1) An Authorised Firm must establish and maintain an IRAP which details the processes and procedures by which the firm will identify, assess, aggregate and monitor the risks faced by it.
  - (2) The firm must conduct the IRAP assessment at least annually giving due regard to the Guidance in section A10.1 of App10.
  - (3) The IRAP assessment conducted by the firm pursuant to (2) must be approved by its Governing Body and then submitted to the DFSA within four months from the end of the firm's financial year.
  - (4) In addition to (2), the firm must conduct an IRAP assessment:
    - (a) whenever there is material change to the business, strategy, nature or scale of the activities of the firm which may have a significant impact on its risk profile or adequacy of its Capital Resources or Adjusted Capital Resources, as applicable; or
    - (b) as and when required by the DFSA.
  - (5) An IRAP assessment conducted by the firm pursuant to (4) must be approved by its Governing Body and then submitted to the DFSA within two months, or such other period as may be specified by the DFSA, from the date of such material change or requirement.

**10.3.3** The results of an IRAP assessment must be documented by the Authorised Firm in writing and include details of:

- (a) the risks identified;
- (b) the firm's strategies and plans to deal with those risks;
- (c) the firm's assessment of the adequacy of its Capital Requirement as calculated under PIB to address all the risks identified by its IRAP;
- (d) the details of any stress testing and scenario analysis carried out and the resultant impact on the Capital Requirement; and
- (e) any other relevant information, giving due regard to the Guidance in App10.

**10.3.4** An Authorised Firm must retain the records of an IRAP assessment for at least six years.

**APP6 CALCULATING THE OPERATIONAL RISK CAPITAL REQUIREMENT**

**Guidance**

1. Section 6.11 of PIB provides that an Authorised Firm in Categories 1, 2, 3A and 5 must use the Basic Indicator Approach to calculate its Operational Risk Capital Requirement, unless the firm has approval from the DFSA to use the Standardised Approach or Alternative Standardised Approach. In this App6:
  - a. the Basic Indicator Approach is prescribed in section A6.1;
  - b. the Standardised Approach is prescribed in section A6.2; and
  - c. the Alternative Standardised Approach is prescribed in section A6.3.
  
2. The application of various components of the rules on Operational Risk to Authorised Firms licensed to carry out various financial services is detailed in the table below:

Financial Services	Prudential Category	Capital requirement	Systems and controls requirement	PII cover
Accepting Deposits	1	YES	YES	NO
Providing Credit	2	YES	YES	NO
Dealing in Investments as Principal	2	YES	YES	NO
Dealing in Investments as Matched Principal	3A	YES	YES	NO
Dealing in Investments as Agent	3A	YES	YES	NO
Managing Assets	3C	NO	YES	YES
Managing a Collective Investment Fund	3C	NO	YES	YES
Managing a Restricted PSIA	3C	NO	YES	YES
Providing Custody	3B or 3C	NO	YES	YES
Providing Trust Services	3C or 4	NO	YES	YES
Acting as the Trustee of a Fund	3B	NO	YES	YES
Providing Money Services (issuing Stored Value)	3C	NO	YES	YES
Providing Money Services (other than issuing Stored Value)	3D	NO	YES	YES
Arranging Deals in Investments	4	NO	YES	YES
Advising on Financial Products	4	NO	YES	YES

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Financial Services	Prudential Category	Capital requirement	Systems and controls requirement	PII cover
Arranging Custody	4	NO	YES	NO
Insurance Intermediation	4	NO	YES	YES
Insurance Management	4	NO	YES	YES
Providing Fund Administration	4	NO	YES	YES
Operating an Alternative Trading System	4	NO	YES	NO* (*unless it holds Client Assets)
Arranging Credit and Advising on Credit	4	NO	YES	YES
Operating a Crowdfunding Platform	4	NO	YES	YES
Arranging or Advising on Money Service	4	NO	YES	YES
Managing an Unrestricted PSIA	5 or 1	YES	YES	NO