MEDIA RELEASE:

DFSA publishes findings of Client Classification and Suitability Review

Dubai, UAE, 31 January 2018: The Dubai Financial Services Authority (DFSA) today published the findings of a thematic review of client classification and suitability practices at regulated firms. The review is part of the DFSA’s risk-based supervisory efforts.

The thematic review started with a comprehensive survey followed by detailed analysis of responses and follow-up visits to selected firms over the course of the year. The review had two primary objectives. First, the DFSA wished to verify that Clients of regulated firms in the DIFC were classified appropriately, according to the rules set out by the DFSA and according to each firm’s authorised activities. Secondly, the DFSA wished to assess how each firm determined the suitability of products and services for each Client, based on that Client’s knowledge, expertise and risk appetite. The review also focused on how firms were documenting the suitability assessments.

The review found that while overall processes for client classification and suitability assessments had improved since the last review in 2012, concerns remained. This included in some cases, insufficient training and guidance provided to staff to perform client classification assessments; inadequate and often unclear documentation to support assessments; and over-reliance on ‘tick-box’ assessment approaches rather than detailed qualitative assessments. The DFSA noted continued concerns around the appropriateness of using “suitability waivers” and other language in Client Agreements to limit liability, duties and obligations in respect of suitability.

In light of the findings of the review, the DFSA offered recommendations to regulated firms to support the enhancement of relevant systems and controls and to ensure Clients’ interests are properly considered and protected. These include:

- Develop appropriate policies and procedures, including operational procedures, to:
  - provide sufficient guidance on the steps required to carry out assessments supporting client classification;
  - document client assessments in a more robust manner, including the final client classification; and
ensure all Clients are notified of their right to be classified as a Retail Client.

- Provide training programmes to ensure all client-facing staff are knowledgeable of client classification.

Mr Ian Johnston, Chief Executive of the DFSA, said: “The Dubai International Financial Centre (DIFC) has evolved into a hub for wealth management and advisory services for individuals, families, and other Clients who should be able to rely upon the judgments of our financial professionals. All firms must keep in mind that client classification and suitability assessments, and all forms of investor protections, are and will continue to be very high DFSA priorities and will feature in the DFSA’s future supervisory agenda.

“We expect this report to be instructive to Firms and their staff and to promote certain behaviours conducive to the best interests of Clients in the DIFC.”

Click on the Client Classification Report to access the report on the DFSA’s website.

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Editor’s notes:
The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai. The DFSA’s regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange and an international commodities derivatives exchange. In addition to regulating financial and ancillary services, the DFSA is responsible for supervising and enforcing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) requirements applicable in the DIFC. The DFSA has also accepted a delegation of powers from the DIFC Registrar of Companies (RoC) to investigate the affairs of DIFC companies and partnerships.

Ian Johnston was appointed as Chief Executive of the DFSA in June 2012. Mr Johnston joined the DFSA in November 2006, as a Managing Director, to head the Policy and Legal Services Division.

Mr Johnston was admitted to practice Law in Australia in the early 1980s and has spent most of his career in the private sector. He held a number of senior positions within the financial sector and was CEO of one of Australia’s major Trustee Companies. During that time, Mr Johnston played a leading role in the Trustee industry and served on the National Council of the Trustee Corporations Association.

In 1999, Mr Johnston joined the Australian Securities and Investments Commission where he held the position of Executive Director, Financial Services regulation, and spent several terms as an acting Commissioner. In 2005, Mr Johnston took up a position with the Hong Kong Securities and Futures Commission as a Special Advisor. Mr Johnston is a past Chairman of the Joint Forum, which comprise representatives of the major international regulatory standard-setters (IOSCO, IAIS and the Basel Committee). In August 2016, he was re-elected to IOSCO’s Growth and Emerging Markets Steering Committee, a position he has held since 2013. He is also a
member of the Financial Stability and Technical Committee (FSTC) of the IAIS, the global standard-setting body for insurance regulation, and was a member of the Board of Directors of the Financial Planning Standards Board (from Jan 2011 – Mar 2016).