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**ANNEX E**

In this Annex, underlining indicates new text and striking through indicates deleted text.



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# The DFSA Rulebook

Prudential – Investment, Insurance  
Intermediation and  
Banking Business Module

**(PIB)**

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## 4.2 Credit risk systems and controls

**4.2.1** Section 4.2 applies to an Authorised Firm with respect to both its Non-Trading Book and Trading Book transactions.

- 4.2.2** (1) An Authorised Firm must develop, implement and maintain a Credit Risk policy which must be documented and:
- (a) provides sound, well-defined risk management criteria that are to be applied when granting credit;
  - (b) clearly indicates the amount and nature of Credit Risk that the Authorised Firm wishes to incur;
  - (c) sets out, where appropriate the amounts and terms and conditions under which counterparties or clients may be eligible or ineligible for credit;
  - (d) includes a provisioning policy approved by the Authorised Firm's Governing Body or other appropriate body within the Authorised Firm to which the Authorised Firm's Governing Body has delegated this responsibility (i.e. the Governing Body's delegate); ~~and~~
  - (e) sets out adequate procedures for handling conflict of interests relating to the provision and management of credit, including measures to prevent any Person directly or indirectly benefiting from the credit being part of the process of granting or managing the credit;
  - (f) subject to (2), prohibits exposures to Related Persons on terms that are more favourable than those available to Persons who are not Related Persons;
  - (g) if exposures to Related Persons are allowed on terms which are no more favourable than those available to Persons who are not Related Persons, sets out procedures that:
    - (i) require such exposures, and any write-off of such exposures exceeding specific amounts or otherwise posing special risks to the Authorised Firm, to be made subject to the prior written approval of the Authorised Firm's Governing Body or the Governing Body's delegate; and
    - (ii) exclude Persons directly or indirectly benefiting from the grant or write off of such exposures being part of the approval process.
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- (2) The prohibition in (1)(f) does not apply to providing credit to a Related Person under a credit policy on terms (such as for credit assessment, tenor, interest rates, amortisation schedules and requirements for collateral) that are more favourable than those on which it provides credit to Persons who are not Related Persons, provided the credit policy:
- (a) is an Employee credit policy that is widely available to Employees of the Authorised Firm;
  - (b) is approved by the Authorised Firm's Governing Body or the Governing Body's delegate;
  - (c) clearly sets out the terms, conditions and limits (both at individual and aggregate levels) on which credit is to be provided to such Employees; and
  - (d) requires adequate mechanisms to ensure on-going compliance with the terms and conditions of that credit policy, including immediate reporting to the Governing Body or the Governing Body's delegate where there is a deviation from or a breach of the terms and conditions or procedures applicable to the provision of such credit for timely and appropriate action.
- (3) For the purposes of this Rule, a Person is a "Related Person" of an Authorised Firm if the Person:
- (a) is, or was in the past 2 years:
    - (i) a member of a Group or Partnership in which the Authorised Firm is or was also a member; or
    - (ii) a Controller of the Authorised Firm or a Close Relative of such a Controller;
  - (b) is, or was in the past 2 years, a Director, Partner or senior manager of the Authorised Firm or an entity referred to under (a)(i) or (ii), or a Close Relative of such a Director, Partner or a senior manager; or
  - (c) is an entity in which a Director, Partner or senior manager of the Authorised Firm or an entity referred to in (a)(i) or (a)(ii), or a Close Relative of such a Director, Partner or senior manager has a significant interest by:
    - (i) holding 20% or more of the shares of that entity, or a Parent of that entity, if that entity is a company; or
    - (ii) being entitled to exercise 20% or more of the voting rights in respect of that entity;
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- except that a Partner is not a Related Person where that Person is a limited partner of a Limited Partnership formed under the Limited Partnership Law of 2006 or any similar limited partnership constituted under the law of a country or territory outside the DIFC.
  - (42) An Authorised Firm must ensure that its risk management systems enable it to:
    - (a) implement the Credit Risk policy; and
    - (b) identify, measure, monitor and control its Credit Risk.
  - (53) An Authorised Firm must, at intervals that are appropriate to the nature, scale and complexity of its activities, review and update the Credit Risk policy.

#### Guidance

1. The appropriate level at which credit decisions are taken will vary according to the type of credit offered and the size and structure of the Authorised Firm. For some Authorised Firms, a credit committee may be appropriate, with formal terms of reference laid down. In other Authorised Firms, individuals may be given pre-assigned authority limits. It will usually be appropriate for the final credit approval authority to be given by staff reporting independently from those staff interacting with clients.
2. Further Guidance on Credit Risk systems and controls, and on the specific areas which the Credit Risk policy should cover, are set out in section A4.2.
3. The requirements in Rule 4.2.2(2) do not prevent arrangements such as Employee loan schemes that allow more favourable and flexible loan terms to Employees of the Authorised Firm than those available under its normal commercial arrangements. However, such a loan scheme must comply with the requirements set out in these Rules, which are designed to address conflicts of interests that may arise in the grant, approval or management of such loans. Such conflicts are especially likely to arise where one or more of the Employees concerned are Directors, Partners or senior managers.
4. Generally, where an Authorised Firm has an Employee loan scheme under Rule 4.2.2(2), the DFSA expects its Governing Body to have ensured, before it or its delegate approved that scheme, that the terms, conditions and particularly limits (both at individual and aggregate level) on which credit is to be provided to Employees under the scheme are adequate and effective in addressing the risks arising from such lending. The Authorised Firm should also be able to demonstrate to the DFSA that the procedures it has adopted relating to an Employee loan scheme are adequate to address any risks arising from such lending. The DFSA expects to have access to records relating to lending under an Employee loan scheme upon request or during its supervisory visits. Any significant breach of or deviation from the procedures adopted in relation to an Employee loan scheme may also trigger the reporting requirements to the DFSA under SUP Rule 7.3.1.

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## **App7 Reporting to DFSA**

### **A7.1 Preparation and submission of returns**

#### **Guidance**

The Returns and Instruction Guidelines are provided in PRU. App7 provides Rules and Guidance in respect of the preparation and submission of those returns.

- A7.1.1**
- (1) Subject to (2) and (3), An Authorised Firm must prepare and submit returns in accordance with the matrix which appears at the conclusion of this Rule.
  - (2) An Authorised Firm which carries on business in or from the DIFC through a Branch is not required to prepare and submit forms PIB 1 to PIB 7.
  - (3) A Domestic Firm is not required to prepare or submit form PIB 9.
  - (4) An Authorised Firm must prepare and submit form PIB 10 whenever it submits one or more of forms PIB 1 to PIB 9 and PIB 12 to PIB 14.
  - (5) For the purposes of the matrix, in the columns headed 'Frequency':
    - (a) the letter Q indicates that the relevant form must be prepared and submitted on a quarterly basis;
    - (b) the letter A indicates that the relevant form must be prepared and submitted on an annual basis;
    - (c) the letters A and Q together indicate that the relevant form must be prepared and submitted on both a quarterly and annual basis;
    - (d) the letter B indicates that the relevant form must be prepared and submitted on a six-monthly basis; and
    - (e) the letters N/A indicate that the form is not applicable to the category of Authorised Firm.

Number	Name	Scope	Category 1 Authorised Firm	Category 2 Authorised Firm	Category 3 Authorised Firm	Category 4 Authorised Firm	Category 5 Authorised Firm
			Frequency	Frequency	Frequency	Frequency	Frequency
PIB 1	Balance Sheet	Solo	A/Q	A/Q	A/Q	A/Q	N/A
		Consolidated	B	B	B	B	N/A
PIB 2	Islamic Authorised Firm's Balance Sheet	Solo	N/A	N/A	N/A	N/A	A/Q
		Consolidated	N/A	N/A	N/A	N/A	B
PIB 3	Profit and Loss	Solo	A/Q	A/Q	A/Q	A/Q	N/A
		Consolidated	B	B	B	B	N/A
PIB 4	Islamic Authorised Firm's Profit and Loss	Solo	N/A	N/A	N/A	N/A	A/Q
		Consolidated	N/A	N/A	N/A	N/A	B
PIB 5	Expenditure based requirement	Solo	N/A	A/Q	A/Q	A/Q	N/A
PIB 6	Capital Adequacy Schedule	Solo	A/Q	A/Q	A/Q	A/Q	A/Q
		Consolidated	B	B	B	B	B

Number	Name	Scope	Category 1 Authorised Firm	Category 2 Authorised Firm	Category 3 Authorised Firm	Category 4 Authorised Firm	Category 5 Authorised Firm
			Frequency	Frequency	Frequency	Frequency	Frequency
PIB 7	Large Exposures Schedule	Solo	A/Q	A/Q	A/Q	N/A	A/Q
		Consolidated	B	B	B	N/A	B
PIB 8	Liquidity Schedule	Solo	Q	N/A	N/A	N/A	Q
PIB 9	Branch Return	Solo	Q	Q	Q	Q	Q
<u>PIB 12</u>	<u>Geographical Distribution of Assets and Liabilities Schedule</u>	<u>Solo</u>	<u>A/Q</u>	<u>A/Q</u>	<u>A/Q</u>	<u>N/A</u>	<u>A/Q</u>
		<u>Consolidated</u>	<u>B</u>	<u>B</u>	<u>B</u>	<u>N/A</u>	<u>B</u>
<u>PIB 13</u>	<u>Provisions for Impairment Schedule</u>	<u>Solo</u>	<u>A/Q</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>A/Q</u>
		<u>Consolidated</u>	<u>B</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>B</u>
<u>PIB 14</u>	<u>Exposures in Arrears Schedule</u>	<u>Solo</u>	<u>A/Q</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>A/Q</u>
		<u>Consolidated</u>	<u>B</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>B</u>