



FEEDBACK STATEMENT ON CP110 DFSA FEES



4 JULY 2017

Why are we issuing this Feedback Statement?

Periodically, the DFSA issues Feedback Statements to explain the conclusions reached, and the final rules put in place, on matters on which we have consulted. We do this, in particular, where we think it is helpful to:

- share with stakeholders the responses we received to a particular consultation;
- illustrate the matters that the DFSA has considered in reaching any conclusions; and
- explain changes from proposals consulted on, where the reason for these changes may not otherwise be obvious from the final rules.

Who should read this Statement?

This Feedback Statement is likely to be of interest to:

- all Authorised Firms, Registered Auditors and Designated Non-Financial Businesses and Professions;
- applicants to become any of these; and
- advisers to firms and applicants.

What happens next?

The rules discussed in this Feedback Statement, arising from the consultation on CP110, have been made by the DFSA Board. They will take effect from 1 January 2018, 1 January 2019 and 1 January 2020, as described later in this paper and as set out in our Rulebook.

DFSA response to public comments on CP 110 – DFSA Fees**I Background**

1. This paper explains how the DFSA has responded to the public comments it received on the proposed changes to DFSA Fees set out in Consultation Paper 110, titled 'DFSA Fees' ("CP110").
2. We released CP110 on 1 February 2017 for public comment for a period of 45 days. In all, we received 14 sets of written comments. We also heard representations from interested parties. The DFSA thanks all those who have contributed to this consultation process.
3. At its meeting in April, the DFSA Board considered the consultation responses and made new fees rules, which will take effect as described later in this paper.

DFSA's general approach to public responses

4. In considering the public responses, we have worked within the framework that we set out in CP110, namely that the proposals are designed to support ongoing DFSA efforts towards increasing cost recovery from the regulated community, while:
 - a) giving due consideration to the commercial considerations of affected parties; and
 - b) ensuring that the DFSA is able to continue fulfilling its statutory and regulatory obligations.
5. We also set out in CP110 a number of principles on which we have previously relied, and continue to rely, when setting our fees:
 - a) the cost of regulation to the market should be proportionate, transparent and flexible;
 - b) fees should not, to the extent it is possible, be a disincentive to set up in the DIFC, as opposed to broadly comparable centres;
 - c) fees should not provide or create any undesirable behavioural incentives for regulated entities; and
 - d) fees should be efficient from the perspective of being easy to administer.

II Public comments***General comments***

6. A number of general comments were made by stakeholders, as follows:
 - a) that the DIFC is still growing as a financial centre, and that fee increases will hinder future growth, particularly by deterring new applicants;

- b) that the DIFC as a whole is already an expensive place to do business;
- c) that it is a difficult economic climate and business conditions and competition are tough, making this a bad time to propose fee increases;
- d) that any extra fees should result in better services from the DFSA; and
- e) that if introduced, any fee changes should be gradual and spread over several years. Fee changes proposed for 2017 should not be introduced this year as budgets for 2017 are already in place.

Comments on specific fee proposals

7. A wide range of comments was received on proposals for specific fees. The comments are summarised below, using the same categorisation of proposals as used in CP110.

Changes proposed for introduction in 2017***One-off fees for specific services***

8. The DFSA should not introduce some fees proposed for 'simple' changes, but instead focus on 'complex' changes if these genuinely do create additional work.
9. Many questioned the proposed fee for errors in returns sent to the DFSA. It was felt to be unfair on firms that are new to the regulatory regime and burdensome for all involved for little obvious benefit to the DFSA.
10. Some stakeholders considered the proposed changes to fees for late submission of returns to be excessive, although it was recognised that such fees do provide an incentive for firms to submit returns on time.

Application fees

11. The proposal to 'unbundle' application fees - so that endorsements, waivers/modifications and the review of Authorised Individuals would all be paid for in addition to the main licence application fee - was criticised by many.
12. Some stakeholders argued that charging additional fees for review of Authorised Individuals could affect negatively the governance of authorised firms, who could be encouraged to combine Authorised Individual roles or to reduce the number of such individuals put forward.

Changes proposed for introduction in later years***Annual fees***

13. There was considerable objection to the proposed increase in annual fees for Insurance Managers. It was noted that this category of firms includes both entities that are part of very large groups, and entities that are relatively small.

The proposed increase would, it was argued, be unfair to smaller entities and start-ups and would deter further applicants, affecting the growth of the DIFC as a reinsurance hub.

14. A number of suggestions were made of fairer ways to apportion fees, including that the fee should differ based on factors such as size; turnover; profitability, or whether the entity was a standalone company or part of a group. One start-up firm suggested that longer established firms should pay higher fees, to encourage competition in the market.
15. The proposed annual fee for entities that are part of a globally systemically important financial institution (G-SIFIs) was thought by some to be excessive. It was argued, in particular, that the fee should not apply twice (or more) if the G-SIFI has multiple entities in the DIFC.

Other comments

Paper licences

16. Stakeholders objected strongly to the proposal that paper licences would no longer be available. They pointed out that a number of third parties in Dubai and in the UAE insist on seeing an official licence in paper form as proof of authorisation.

III Post-consultation conclusions

17. The main changes that the DFSA has made to the proposals consulted on in CP110 in light of the above-mentioned comments are as follows:

- a) *No introduction of new fees in 2017.*

Many respondents told us that budgets for this year are already in place and that fee increases would be problematic. They asked for time to enable them to plan for future increases. We concluded, therefore, that some new fees should start from 1 January 2018, with further changes to follow gradually in 2019 and 2020.

- b) *Only minor changes to fees for new applicants.*

A number of respondents felt that increasing fees would reduce the growth of the Centre and, in particular, would deter new applicants from coming to the Centre. With this in mind, the new rules will make only a few changes to the fees that apply to new applicants.

- c) *Smaller increase in annual fee for Insurance Managers.*

We received specific feedback from the insurance community that the annual fee changes we proposed for Insurance Managers were disproportionate and would affect the ongoing growth of the Centre as a reinsurance hub. Considering this feedback, we decided that the fee

increase for Insurance Managers should be much smaller than originally proposed in our consultation paper.

18. These and other changes to the proposals consulted on in CP110 are set out in the three tables below. Only items that have changed from the proposal in CP110 are mentioned below. The new rules can be found on our [website](#) or [here](#).

Table I: One-off fees for specific services

Type of fee	CP 110 (USD)	Final rules
Change of control – non-DIFC firm and DIFC firm – notification	1,000	Withdraw
Change of control – DIFC firm – complex approval	10,000	Reduce to 5,000
Withdrawal – simple	2,000	Withdraw
Fee for correcting mistakes in applications and regulatory returns	100	Withdraw
Endorsement to act as Trade Repository	25,000	Reduce to 15,000
Fees for late submission to DFSA of all reports required by the Rulebook	1 st – 1,000 Next – 4,000	1 st – 1,000, 2 nd ,3 rd ,4 th + 1,000 Cap – 4,000

Table II: Application fees

Type of fee	CP110 (USD)	Final rules
Application fee for Recognised Members	3,500	1,000
Additional fees on top of standard application fee for approving ('unbundling'):	Same rates as for these services individually	Additional fees for Retail and Trade Repository Endorsements only
• Authorised Individuals		
• Audit Principals		
• Retail and Trade Repository Endorsements		
• Waivers & Modifications		

Table III: Annual fees

Type of fee	CP110 (USD)	Final rules
Insurance Management	40,000	20,000
Recognised Bodies	5,000	1,000
Recognised Members	2,500	Withdraw

19. As noted in paragraph 17a), no new fees consulted on in CP110 will be introduced in 2017. In the consultation, we set out our intention to introduce changes over a number of years. The table below sets out when new rules will take effect, starting from 1 January 2018 and then at the start of subsequent years.
20. The DFSA does not currently expect to introduce other significant changes to its fee regime during this period. This does not mean that the regime will be set in stone for this period. Changes to fees are likely to occur as the shape of the regulatory regime changes and, for example, new financial services introduced, perhaps with the development of FinTech or in other areas. Similarly, our fee regime will change if we discover aspects of the regime that do not function well, or as intended.

Table IV: Timetable for introduction of fee changes

Type of fee	Phase-in date and mode
<ul style="list-style-type: none"> • One-off fees for distinct services (new and increases) • Late submissions • Application fees 	2018
Fixed flat rate annual fee increase	2018 & 2019 - 50% of increase each year
Fees for each additional financial service	2018 & 2019 - 50% of increase each year
Additional annual fees	2020

21. The new fee rules will go some way towards increasing the proportion of funding that the DFSA receives from the regulated community. Having taken into account feedback received, we believe that the fees are allocated reasonably across different types and sizes of firms in the Centre, and should not deter new applicants from coming to the Centre.

Paper licences

22. Given strong objections by many respondents to eliminating paper licences, the DFSA will continue to issue these at the point of licensing for the time being. We will continue to look at ways of making this process more efficient while still providing firms with what they need, in an appropriate format.

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