

Appendix 5

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



The DFSA Rulebook

Prudential – Investment, Insurance
Intermediation and
Banking Module

(PIB)

1 APPLICATION, INTERPRETATION AND CATEGORISATION

1.1 Application

- 1.1.1** (1) This module (PIB) applies to every Authorised Firm other than:
- (a) an Insurer;
 - (b) a Representative Office; and
 - (c) a Credit Rating Agency.
- (2) The Rules in PIB apply to an Authorised Firm in accordance with its Category determined under section 1.3.
- (3) Where a chapter, part or section of PIB applies to a limited scope of Categories of Authorised Firm, the term “Authorised Firm” used in those provisions is to be read accordingly.
- (4) The Rules in PIB apply to the whole business of an Authorised Firm except in relation to Client Assets and Insurance Money that are held or controlled by an Authorised Firm which are not included in any prudential calculation.

Branches

- 1.1.2** Unless otherwise directed by the DFSA, an Authorised Firm that is a Branch is required to comply with the Rules in chapters 2 to 11 as specifically provided in “Application Table A” which forms part of this Rule.

Guidance

1. The effect of Rule 1.1.1(1) is that these Rules apply to all Authorised Firms, except those carrying on Insurance Business (that is, Insurers), that operate a Representative Office and those that are CRAs. Those Authorised Firms that are authorised to effect or carry out Contracts of Insurance should refer to the PIN module. Authorised Firms that are authorised to Operate a Representative Office should refer to the REP module.
2. These Rules apply both to Domestic Firms and, to the extent specified in Rule 1.1.2, to Authorised Firms conducting Financial Services through a Branch in the DIFC.
3. The Rules in PIB reinforce the fitness and propriety requirements found in GEN chapter 5 - Management Systems and Principle 4 for Authorised Firms. The PIB module is set out in:
 - a. an initial chapter establishing a categorisation of firms for the application of PIB;
 - b. two general chapters setting overall requirements: General Requirements and Capital;
 - c. six chapters setting specific requirements relating to the following particular risks or issues: Credit Risk, Market Risk, Operational Risk, Interest Rate Risk in the Non-Trading Book, Group Risk and Liquidity Risk;

- d. a chapter imposing processes for supervisory assessment, by which an Authorised Firm which is a Domestic Firm in Category 1, 2 or 5 has obligations to establish and conduct an IRAP and an ICAAP, and to provide documented assessments to the DFSA; and
- e. a final chapter imposing public disclosure requirements.

Domestic Firms

- 4. To assist Authorised Firms that are Domestic Firms there is a table “Application Table B” which sets out in general the application of the provisions in this module to different Categories of Authorised Firms. This table is for Guidance purposes only. The Rules in this module apply to Authorised Firms in accordance with this Chapter and as specified in Rules elsewhere in this module.
- 5. With regards to Authorised Firms carrying on Islamic Financial Business, there are additional matters that should be included in their report to the DFSA which are in the Islamic Finance Rules (IFR) module (see section 5.4 of IFR module).

APPLICATION TABLE B FOR AUTHORISED FIRMS THAT OPERATE AS A DOMESTIC FIRM

PIB Chapters	Category 1	Category 2	Category 3A	Category 3B	Category 3C	<u>Category 3D</u>	Category 4	Category 5
Chapter 1: Application, Interpretation and Categorisation	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	<u>Whole Chapter</u>	Whole Chapter	Whole Chapter
Chapter 2: General Requirements	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	<u>Whole Chapter</u>	Whole Chapter	Whole Chapter
Chapter 3:Capital	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5, and 3.7, <u>3.8A and 3.8B</u>	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.3, 3.5 and 3.7, <u>3.8A and 3.8B</u>	Whole Chapter, except Rules 3.2.4 and 3.2.6, except sections 3.3, 3.5, 3.9, 3.9A, 3.9B, 3.9C and 3.18	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, 3.9A, 3.9B, 3.9C and 3.18	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, 3.9A, 3.9B, 3.9C and 3.18	<u>Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, 3.9A, 3.9B, 3.9C and 3.18</u>	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, 3.9A, 3.9B, 3.9C and 3.18	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5 and 3.7
Chapter 4:Credit Risk	Whole Chapter	Whole Chapter	Whole Chapter					Whole Chapter
Chapter 5:Market Risk	Whole Chapter	Whole Chapter	Only sections 5.1, 5.2 and 5.6					Whole Chapter, except section 5.4
Chapter 6:Operational Risk	Whole Chapter, except section 6.12	Whole Chapter, except section 6.12	Whole Chapter, except section 6.12	Whole Chapter, except sections 6.10 and 6.11	Whole Chapter, except sections 6.10 and 6.11	<u>Whole Chapter, except sections 6.10 and 6.11</u>	Whole Chapter, except sections 6.10 and 6.11	Whole Chapter, except section 6.12
Chapter 7:Interest Rate Risk In the Non-Trading Book	Whole Chapter	Whole Chapter						
Chapter 8:Group Risk	Whole Chapter	Whole Chapter	Only sections 8.1 and 8.5	Only sections 8.1 and 8.5	Only sections 8.1 and 8.5	<u>Only sections 8.1 and 8.5</u>	Only sections 8.1 and 8.5	Whole Chapter
Chapter 9:Liquidity Risk	Whole Chapter, except Rule 9.2.2(3)	Only Rule 9.2.2 (3).						Whole Chapter, except Rule 9.2.2(3)



PRUDENTIAL – INVESTMENT, INSURANCE INTERMEDIATION AND BANKING (PIB)

PIB Chapters	Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 3D	Category 4	Category 5
Chapter 10:Supervisory Review and Evaluation Processes	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter, except sections 10.4 and 10.6	Whole Chapter, except sections 10.4 and 10.6	<u>Whole Chapter, except sections 10.4 and 10.6</u>		Whole Chapter
Chapter 11:Disclosure Requirements	Whole Chapter	Whole Chapter						Whole Chapter

1.2 Glossary for PIB

Guidance

Set out under Rule 1.2.1 are a number of mainly technical definitions used solely in PIB. Such definitions do not also appear in GLO unless they are used elsewhere in the Rulebook. GLO also contains definitions of abbreviations, terms and phrases used in PIB and those are also included in 1.2.1 for convenience purposes where such definitions are embedded in PIB specific definitions. Commonly used definitions such as “Authorised Firms”, “Domestic Firms”, and “Financial Services” appear only in GLO.

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of this module:

...	...
<u>Stored Value Capital Requirement</u>	<u>Has the meaning given in section 3.8A.</u>
...	...
<u>Transaction Based Capital Requirement</u>	<u>Has the meaning given in section 3.8B.</u>
...	...

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.

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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);
 - (iv) Managing a PSIA (which is a PSIAr); ~~or~~
 - (v) Providing Trust Services (where it is acting as trustee in respect of at least one express trust); ~~and/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, Managing a PSIA which is a PSIAr, ~~or~~ 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, ~~or~~ 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.

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3 CAPITAL

Introduction

Guidance

1. This chapter deals with all aspects of prudential requirements relating to capital adequacy. The chapter aims to ensure that an Authorised Firm maintains adequate capital to support the risks associated with its activities and that it can absorb potential unexpected losses to its capital. It also includes provisions forming part of the framework for assessing the capital adequacy of an Authorised Firm.
2. Part 1 of this chapter deals with the application provisions. Part 2 outlines the fundamental capital adequacy obligations and systems and controls requirements to ensure compliance with this critical regulatory obligation. Part 3 includes all the Rules and associated guidance for the calculation of minimum Capital Requirement for different Categories of Authorised Firms. This part also specifies the requirements in respect of Capital Buffers and associated obligations. It specifies three types of Capital Buffers: the Capital Conservation Buffer, the Countercyclical Capital Buffer and the HLA Capital Buffer. Part 4 of this chapter specifies detailed Rules on the calculation of Capital Resources of an Authorised Firm, including detailed Rules on the eligibility criteria for different components of Capital Resources which correspond to varying levels of quality.
3. Appendix 3 provides detailed guidance on various aspects of stress and scenario testing which are required to be considered by an Authorised Firm to effectively comply with the Rules in this chapter.

PART 1 – Application

3.1 Application

3.1.1 The parts, sections and Rules in this chapter apply to an Authorised Firm as stated in those provisions.

Guidance

1. Part 2 of this chapter imposes a number of basic requirements, including the core requirement that the amount of a firm's Capital Resources must at all times exceed the amount of its Capital Requirement.
2. In particular, note that:
 - a. Part 3 (Calculating Capital Requirements) applies to all firms, but with differentiated calculations for Capital Requirements for the various Categories of Authorised Firms as prescribed in sections 3.3, 3.4 and 3.5;
 - b. Within Part 3, an exemption from the calculation of Tier 2 (T2) Capital in relation to firms authorised to Manage a PSIAu is prescribed in Rule 3.15.9; and
 - c. Part 4 (Calculating Capital Resources) applies to all firms, but in a differentiated manner for different Categories of firms as demonstrated in the table in section 3.11.

PART 2 – Basic Requirements

3.2 Requirements

Application

3.2.1 In this section:

- (a) Rules 3.2.2 to 3.2.5 apply to an Authorised Firm in any Category;
- (b) Rule 3.2.6 applies only to an Authorised Firm in Category 3B, 3C, 3D or 4; and
- (c) Rule 3.2.7 applies only to an Authorised Firm in Category 1, 2, 3A or 5.

Maintaining Capital Resources

3.2.2 An Authorised Firm that is a Domestic Firm must:

- (a) have and maintain, at all times, Capital Resources of the kinds and amounts specified in, and calculated in accordance with, the Rules in PIB; and

- (b) ensure that it maintains capital and liquid assets in addition to the requirement in (a) which are adequate in relation to the nature, size and complexity of its business to ensure that there is no significant risk that liabilities cannot be met as they fall due.

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Notifications to the DFSA

- 3.2.6** (1) This Rule applies to an Authorised Firm in Category 3B, 3C, 3D or 4.
- (2) An Authorised Firm must notify the DFSA immediately and confirm in writing if its Capital Resources fall below 120% of its Capital Requirement.

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PART 3 – Calculating the Capital Requirement

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3.5 Capital Requirements for Categories 3B, 3C, 3D and 4

3.5.1 This section applies to an Authorised Firm in Category 3B, 3C, 3D or 4.

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

- (a) the applicable Base Capital Requirement as set out in section 3.6; or
- (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.

3.5.3 (1) An Authorised Firm to which this section applies must, at all times, maintain an amount which exceeds its Expenditure Based Capital Minimum in the form of liquid assets.

- (2) For the purpose of this Rule, and subject to (3), liquid assets comprise any of the following:
 - (a) cash in hand;
 - (b) money deposited with a regulated bank or deposit-taker which has a short-term credit rating of A1 or P1 (or equivalent) and above from an ECAI;
 - (c) demand deposits with a tenor of 1 year or less with a bank or deposit-taker in (b);
 - (d) time deposits with a tenor of 1 year or less which have an option to redeem the deposit at any time. In such cases, the deposit amount eligible to be included as liquid assets must be calculated as net of any costs associated with such early redemption;
 - (e) cash receivable from a regulated clearing house and cash deposits with such clearing houses, other than any fees or contributions to guarantee or reserve funds of such clearing houses; or

- (f) any other asset which may be approved by the DFSA as comprising a liquid asset for the purpose of this Rule.
- (3) For the purpose of this Rule, liquid assets do not include:
- (a) any investment, asset or deposit which has been pledged as security or Collateral for any obligations or liabilities assumed by it or by any other third party; or
 - (b) cash held in Client Money or Insurance Money accounts.

3.6 Base Capital Requirement

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

Guidance

The Base Capital Requirement is a component of the calculation of the Capital Requirement under sections 3.3, 3.4 and 3.5.

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	US \$4 million
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>
<u>Category 3D</u>	<u>US \$200,000</u>
Category 4	<p style="text-align: center;">US \$ 10,000</p> <p>Except if the Authorised Firm;</p> <p><u>(a) is authorised to Operate a Crowdfunding Platform and it holds Client Assets; or</u></p> <p><u>(b) provides Money Transmission,</u></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

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 which 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; or
- (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), 6/52;

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

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3.8A Stored Value Capital Requirement

3.8A.1 This section applies to an Authorised Firm in Category 3C that issues Stored Value.

Calculation of Stored Value Capital Requirement

- 3.8A.2** (1) An Authorised Firm must calculate its Stored Value Capital Requirement as an amount equal to 3% of the average daily outstanding Stored Value of the firm.
- (2) In (1), the average daily outstanding Stored Value of a firm means the average total of financial liabilities related to Stored Value in issue at the end of each calendar day where that average is calculated over the previous six calendar months.

- (3) The Authorised Firm must calculate its Stored Value Capital Requirement on the first calendar day of each calendar month and apply the resulting sum as its requirement for that month.
- (4) If the Authorised Firm has not completed its first six months of business, it must make the calculation under (2) and (3) based on the outstanding Stored Value projected in the business plan included with its application for authorisation, subject to any adjustment to that plan required by the DFSA.

3.8B Transaction Based Capital Requirement

3.8B.1 This section applies to an Authorised Firm that is a Payment Service Provider.

Calculation of Transaction Based Capital Requirement

- 3.8B.2** (1) An Authorised Firm must calculate its Transaction Based Capital Requirement as the sum of the following elements multiplied by the scaling factor:
- (a) 4% of the first \$5 million of payment volume;
 - (b) 2.5% of the next \$5 million of payment volume;
 - (c) 1% of the next \$90 million of payment volume;
 - (d) 0.5% of the next \$150 million of payment volume; and
 - (e) 0.25% of any remaining payment volume.
- (2) In (1), payment volume means the total value of Payment Transactions executed by the Authorised Firm in the previous financial year divided by 12.
- (3) If an Authorised Firm has not completed a full financial year's business, references in (2) to the previous financial year are to be read as the equivalent figure projected in the business plan provided in its application for authorisation, subject to any adjustment to that plan required by the DFSA.
- (4) A Payment Service Provider that also issues Stored Value may exclude from the payment volume in (1), payments directly related to issuing Stored Value.
- (5) The scaling factor in (1) is:
- (a) 0.5 for an Authorised Firm that is authorised to provide only Money Transmission; or
 - (b) 1 for an Authorised Firm that is authorised to provide other types of Payment Services.

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6 OPERATIONAL RISK

Introduction

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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; ~~or~~
 - (xv) Acting as the Administrator of an Employee Money Purchase Scheme;

- (xvi) Providing Money Services; or
- (xvii) Arranging or Advising on Money Services;
- (d) Section 6.13 applies only to an Authorised Firm that provides Money Services, Account Information Services or Payment Initiation Services.

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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

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6.13 Management of Operational Risk in Money Services

6.13.1 This section applies to an Authorised Firm that provides:

- (a) Money Services;
- (b) Account Information Services; or
- (c) Payment Initiation Services.

Definition of strong customer authentication

- 6.13.2** (1) In this section, "strong customer authentication" or "SCA" means authentication that is based on the use of two or more elements that are:
- (a) independent, in that breach of one element does not compromise the reliability of any other element; and
 - (b) designed in such a way as to protect the confidentiality of the authentication data.

- (2) The elements in (1)(a) must consist of two or more of the following:
- (a) something known only by the User (“knowledge”);
 - (b) something held only by the User (“possession”); or
 - (c) something inherent to the User (“inherence”).

Strong customer authentication and User security measures

- 6.13.3** (1) An Authorised Firm must, except as provided in Rule 6.13.4, apply strong customer authentication where a User:
- (a) accesses a Payment Account online, either directly or through an Account Information Service;
 - (b) initiates an electronic Payment Transaction; or
 - (c) carries out any action through a remote channel which may imply a risk of payment fraud or other abuses.
- (2) If a payer initiates a Payment Transaction directly or through a Payment Initiation Service, the Authorised Firm must apply SCA that includes elements which dynamically link the transaction to a specific amount and a specific payee.
- (3) If a multipurpose device is used in the SCA process, the Authorised Firm must adopt adequate security measures that mitigate the risk of the device being compromised.
- (4) The Authorised Firm must maintain adequate security measures to protect the confidentiality and integrity of Users’ personal security credentials.

Guidance

1. An Authorised Firm should, as best practice in maintaining the integrity of strong customer authentication, try to ensure that:
 - (a) no element of ‘knowledge’, ‘possession’ or ‘inherence’ (as defined in Rule 6.13.2) can be derived from the disclosure of the authentication code cover;
 - (b) it is not possible to generate a new authentication code based on an old one;
 - (c) the authentication code cannot be forged;
 - (d) where the authentication through a remote channel has failed to generate an authentication code, it is not possible to identify which of the SCA elements was incorrect;
 - (e) a maximum of 5 failed consecutive authentication attempts within a given period result in the account being temporarily or permanently blocked;
 - (f) the duration and number of retries for a temporary block should be linked to the service offered and trigger a fraud risk alert; and
 - (g) the User is alerted before the block becomes permanent and a secure procedure is established to regain the use of the blocked payment instrument.
2. An Authorised Firm should, as best practice in maintaining the integrity of User security credentials (USC), endeavour:
 - (a) not to allow the USC to be fully readable when inputted by the User or by its own staff;

- (b) to ensure that the USC always remain encrypted and no information relating to the USC is stored in plain text;
 - (c) to protect secret cryptographic material from unauthorised disclosure;
 - (d) to document the process used to encrypt or otherwise render the USCs unreadable;
 - (e) to adopt measures to mitigate the risk of unauthorised use of compromised USCs;
 - (f) to ensure secure delivery of the USC to the User, secure association of the USC with the User and the secure disposal of the USC once it is obsolete; and
 - (g) to immediately inform the User and the issuer of the USC (if another firm) in the event a USC is compromised under the firm's sphere of control.
3. Dynamic linking referred to in Rule 6.13.3(2) may include:
- (a) the User being made aware of the payment amount and the beneficiary;
 - (b) the authentication code generated using SCA being specific to the transaction amount and the beneficiary; and
 - (c) any change to the amount or the beneficiary resulting in the authentication code becoming invalid.
4. The security measures referred to in Rule 6.13.3(4) may include:
- (a) the use of separated secure execution environments through the software installed on the device;
 - (b) mechanisms to ensure that the software or device has not been, and cannot be, altered by the User or a third party; and
 - (c) where alterations have taken place, mechanisms to mitigate the consequences.

Exceptions

6.13.4 An Authorised Firm is not required to apply strong customer authentication under Rule 6.13.3 when:

- (a) the User accesses its own payment account information unless:
 - (i) it is the first time the account is accessed; or
 - (ii) the account has not been accessed for 90 days or more;
- (b) the User makes a payment of a small amount;
- (c) the User makes a payment to a specified beneficiary on a list created by the User, or under a standing order, where strong customer authentication was applied when the list or standing order was created; or
- (d) a transfer is made between accounts held by the same User.

Guidance

In Rule 6.13.4(b) an example of a small amount may be a transaction not exceeding a certain value e.g. \$50 or five payments not exceeding an aggregated amount of \$150 over a specified period.

Technical standards

6.13.5 An Authorised Firm must adopt and implement technical standards relating to:

- (a) the implementation of the requirements for strong customer authentication referred to in Rule 6.13.3;
- (b) procedures for applying the exclusions in Rule 6.13.4;
- (c) common and secure standards of communication for the purpose of identification, authentication, notification, and sharing information with Users and other service providers; and
- (d) if applicable, procedures, systems and controls that ensure the reliability and continuity of the interface made available by a Payment Account Provider.

Guidance

1. In developing technical standards referred to in 6.13.5(c) (common and secure standards of communication) an Authorised Firm should, as best practice and where applicable:
 - (a) apply secure identification when communicating between devices used for electronic payments;
 - (b) address the risk of a communication being misdirected to unauthorised parties;
 - (c) trace all payment transactions and interactions with all relevant parties to the Payment Service;
 - (d) use strong and widely recognised encryption techniques when exchanging data;
 - (e) keep the access sessions with the Payment Account Provider (PAP) as short as possible and terminate any session after the requested action is completed;
 - (f) ensure, when maintaining parallel network sessions, that the sessions are securely linked to relevant sessions established with the User to prevent the possibility that information communicated between them could be misrouted;
 - (g) include unambiguous unique references to the User, communication session, payment transaction and requested amount; and
 - (h) have systems and controls to prevent access to User information being available by the Payment Account Provider, beyond what is needed to provide the relevant service. The frequency of the access should also be agreed with the User.
2. In developing technical standards referred to in Rule 6.13.4 (d) (procedures, systems and controls to ensure the reliability and continuity of the interface with the PAP) an Authorised Firm should:
 - (a) contractually ensure that the interface applies best practice standards of communication issued by the Security Standards Council;
 - (b) understand and document the interface technical specification such as the routines, protocols, and tools needed to interoperate with the systems of the PAP;
 - (c) contractually require the PAP to provide the firm with at least 3 months' notice ahead of any change to the interface, except in an emergency;
 - (d) adequately test the interface to ensure reliability and performance;
 - (e) establish key performance indicators and service level standards with the PAP; and
 - (f) request the PAP to provide adequate contingency measures in the event the interface is not available and test the measures for reliability.

Systems and controls to detect fraud

- 6.13.6** (1) An Authorised Firm must have in place transaction monitoring systems and controls to detect and prevent unauthorised or fraudulent Payment Transactions.

- (2) The systems referred to in (1) must be designed to take into account the following fraud risk factors:
- (a) compromised or stolen authentication elements;
 - (b) the amount of each payment transaction;
 - (c) known fraud scenarios in the provision of the particular Payment Service;
 - (d) analysis of Payment Transactions typical of the type of Users;
 - (e) signs of malware infection in any sessions of the authentication procedure;
and
 - (f) if the firm provides the access device or software (the Payment Instrument), a log of the use of the access device or software and abnormal use.

Reporting of information about transactions and rates of fraud

6.13.7 An Authorised Firm must provide the following information to the DFSA at least quarterly:

- (a) rates of fraud or suspected fraud;
- (b) the total value of fraudulent transactions and the total value of all payment transactions;
- (c) the number of payment transactions and the average transaction value; and
- (d) a breakdown by percentage of transactions initiated through SCA and transactions initiated through each exception to the SCA requirements.

Reporting of information about Money Transmission

6.13.8 An Authorised Firm that provides Money Transmission must send the following information to the DFSA at least quarterly relating to transactions:

- (a) details of senders and recipients of transfers;
- (b) the amounts transferred;
- (c) dates of transfers; and
- (d) any other firms involved in transfers.

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8 GROUP RISK

Introduction

Guidance

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8.1 Application

- 8.1.1** (1) This section and section 8.5 apply to an Authorised Firm in any Category.
- (2) Sections 8.2 to 8.4 apply only to an Authorised Firm in Category 1, 2 or 5.

Guidance

1. Group membership may be a source of both strength and weakness to an Authorised Firm. The purpose of Group Risk requirements is to ensure that an Authorised Firm takes proper account of the risks related to the Authorised Firm's membership of a Group. The Group Risk requirements form a key part of the DFSA's overall approach to prudential supervision.
2. Section 8.5 imposes important restrictions on the ability of Authorised Firms in Category 3A, 3B, 3C, 3D or 4, and non-regulated Financial Institutions, to be a Parent of an Authorised Firm in Category 1 or 5, or of a firm carrying on similar activities outside of the DIFC.

Requirements by the DFSA

- 8.1.2** (1) The DFSA may require an Authorised Firm to:
- (a) form a Financial Group with any other entity within its Group; or
 - (b) include within its Financial Group any other entity within its Group;
- where the DFSA considers it necessary or desirable to do so in the interests of effective supervision of the Authorised Firm.
- (2) An Authorised Firm may, for the purposes of this section, exclude from its Financial Group any entity the inclusion of which would be misleading or inappropriate for the purposes of Financial Group supervision, provided the Authorised Firm has obtained the DFSA's prior written approval.
- (3) An Authorised Firm must provide to the DFSA, if requested, any of the following information in relation to its Group or Financial Group:
- (a) details as to the entities within the Group or Financial Group;
 - (b) the structure of the Group or Financial Group; and
 - (c) the systems and controls in place to manage Group Risk.

Guidance

1. If more than one member of the same Group is subject to an obligation to provide information in respect of a position of the Group or Financial Group, one or more of those Authorised Firms may make application to the DFSA for an appropriate waiver or modification.
2. For the purposes of Rule 8.1.2, the DFSA would consider a range of factors when requiring an Authorised Firm to form a Financial Group. These factors would include regulatory risk factors, including but not limited to, (direct and indirect) participation, influence or contractual obligations, interconnectedness, intra group exposures, intra group services, regulatory status and legal framework.

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8.5 Restrictions on ownership or control

Guidance

By Rule 8.1.1(1), this section applies to an Authorised Firm in any Category.

Parents of Category 1 and 5 Authorised Firms

- 8.5.1**
- (1) No entity other than one of the following may be the Parent of, or any of the Parents of, an Authorised Firm in Category 1 or 5:
 - (a) another Authorised Firm in Category 1 or 5; or
 - (b) a Regulated Financial Institution licensed to carry on the activities of accepting deposits.
 - (2) An entity other than one referred to in (1)(a) or (b) may be the Parent of an Authorised Firm in Category 1 or 5 where the ultimate, or any intermediate, Parent is an entity of the type specified under 1(a) or (b).

Restrictions on Category 3A, 3B, 3C, 3D and 4 Authorised Firms

- 8.5.2**
- (1) An Authorised Firm in Category 3A, 3B, 3C, 3D or 4 must not, subject to (2), be a Parent of an entity that:
 - (a) is an Authorised Firm in Category 1 or 5 or an Insurer; or
 - (b) carries on activities that would, if conducted in the DIFC, constitute Accepting Deposits, Managing a PSIA which is a PSIAu, or Effecting or Carrying out Contracts of Insurance.
 - (2) An Authorised Firm in Category 3A, 3B, 3C, 3D or 4 may own or control an entity referred to in (1) where it is itself a Subsidiary of:
 - (a) a Regulated Financial Institution licensed to carry on any one or more of the activities specified in (1)(b); or
 - (b) an Authorised Firm in Category 1 or 5 or an Insurer.

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10 SUPERVISORY REVIEW AND EVALUATION PROCESSES

Introduction

Guidance

1. This chapter deals with the regulatory requirements arising out of the need for Authorised Firms to carry out a self-assessment of their risk which can be reviewed and assessed by the regulator. This chapter details the Rules stipulating the need to complete internal risk assessments by Authorised Firms in defined frequencies and the DFSA's role in reviewing the results of such assessments. In the case of Authorised Firms facing financial risks, the requirements in this chapter mandate completion of an internal capital adequacy assessment process. The DFSA will review the results of such internal risk assessments. This chapter also sets out how the DFSA may impose an additional capital requirement on a firm-specific basis in addition to the minimum requirement specified in chapter 3 of this module.
2. Appendix 10 provides detailed guidance on the various components of the supervisory review and evaluation process and explains the role of the different parties in completing the required processes.

10.1 Application

10.1.1 This chapter 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 5, as follows:

- (a) sections 10.1, 10.2, 10.3 and 10.5 apply only to an Authorised Firm in Category 1, 2, 3A, 3B, 3C, 3D, 4 or 5; and
- (b) sections 10.4 and 10.6 apply only to an Authorised Firm in Category 1, 2, 3A or 5.

10.1.2 Where an Authorised Firm to which this chapter applies is part of a Financial Group, this chapter applies on a consolidated basis in relation to all the entities within the Financial Group.

10.1.3 In implementing the requirements prescribed in this chapter, an Authorised Firm must give due and appropriate regard to the provisions in App10.

Guidance

If an Authorised Firm is part of a Financial Group which is already subject to requirements similar to those prescribed in this chapter, the DFSA may consider a request for a waiver or modification in relation to the requirements of this chapter.

10.2 Overview

Guidance

1. These Rules are designed to implement key aspects of Pillar 2 of the revised framework of capital adequacy, commonly known as Basel III, published by the Basel Committee on Banking Supervision.

Internal Risk Assessment Process (IRAP)

2. An Authorised Firm in Category 1, 2, 3A, 3B, 3C, 3D, 4 (for certain firms) or 5 is required to carry out an IRAP. An IRAP is a comprehensive internal risk evaluation as detailed in section 10.3. More detail on the establishment of an IRAP and the manner of carrying out an IRAP assessment is provided in App10.

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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 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.

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10.5 SREP

Guidance

1. The DFSA may conduct a SREP to review and evaluate the assessments carried out by an Authorised Firm under its IRAP (relevant to firms in Categories 1, 2, 3A, 3B, 3C, 3D, 4 and 5) and ICAAP (relevant to firms in Categories 1, 2, 3A and 5). Section A10.3 of App10 contains guidance in relation to a SREP.
2. The DFSA may engage with a firm in Categories 1, 2, 3A and 5 in a dialogue where, following an SREP, the DFSA considers that it is or may be appropriate to impose an Individual Capital Requirement on the firm.
3. It is important that a firm cooperates in an open and co-operative manner with the DFSA in the course of its conduct of the dialogue.

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APP1 CATEGORIES OF AUTHORISED FIRMS

A1.1 Categorisation of Authorised Firms

Guidance

1. This section contains the table referred to in the Guidance notes at the commencement of section 1.3 of PIB. This table is for guidance purposes only.
2. The Financial Services described in the emboldened boxes in the table are the determinants for the prudential Category. The activities set out in the boxes in the table are Financial Services (see GEN chapter 2). The Financial Services that an Authorised Firm is authorised to carry on are specified on its Licence.
3. If a Person carries on any one or more of the Financial Services specified in an emboldened box under a particular Category, then the highest such Category is that Person's Category for the purposes of this module.
4. An exception to the above is an Islamic Financial Institution which Manages a PSIA which is an PSIAu. Such an institution falls in Category 5.

PRUDENTIAL – INVESTMENT, INSURANCE INTERMEDIATION AND BANKING (PIB)

Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 3D	Category 4	Category 5
Accepting Deposits	Dealing in Investments as Principal (not as Matched Principal)	Dealing in Investments as Principal (only as a Matched Principal)	Providing Custody (only if for a Fund)	Managing a Collective Investment Fund	<u>Providing Money Services (other than issuing Stored Value)</u>	Arranging Deals in Investments	An Islamic Financial Institution which Manages a PSIAu
Managing a PSIAu	Providing Credit	Dealing as Agent	Acting as the Trustee of a Fund	Managing Assets		Advising on Financial Products	
			Operating an Employee Money Purchase Scheme	Providing Trust Services as a trustee of an express trust		Arranging Custody	
			Acting as the Administrator of an Employee Money Purchase Scheme	Managing a PSIAr		Insurance Intermediation	
				Providing Custody (other than for a Fund)		Insurance Management	
				<u>Providing Money Services (issuing Stored Value)</u>		Operating an Alternative Trading System	
						Providing Fund Administration	
						Providing Trust Services other than as a trustee of an express trust	

Arranging Credit
and Advising on
Credit

Operating a
Crowdfunding
Platform

Arranging or
Advising on
Money Services

APP2 GENERAL REQUIREMENTS

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A2.4 Reporting to the DFSA

A2.4.1 In the following Table 1:

- (a) the column headed 'Domestic Firm or Branch' indicates whether the relevant form must be prepared and submitted by a Domestic Firm or Branch;
- (b) the column headed 'Authorised Firm Category' indicates which Category of Authorised Firm must prepare and submit the relevant form;
- (c) the column headed 'Frequency' indicates whether the relevant form must be prepared and submitted on a quarterly or annual basis; and
- (d) the column headed 'Semi-annual consolidated reporting for Financial Groups' indicates which Category of Authorised Firm of a Financial Group must prepare and submit the relevant form on a semi-annual basis.

Guidance

Table 1 is referred to in section 2.3, and forms part of the Rules.

Table 1 Authorised Firm Reporting Matrix

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
B10A	Assets	Domestic Firm and Branch	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Category 1, 2
B10B	OBS Exposures	Domestic Firm and Branch	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Category 1, 2
B10C	Liabilities (Domestic)	Domestic Firm	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Category 1, 2
B10D	Equity	Domestic Firm	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Category 1, 2
B10E	Liabilities (Branch)	Branch	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Not applicable
B20A	Assets	Domestic Firm and Branch	Category 5 only	Quarterly and annually	Category 5
B20B	OBS Exposures	Domestic Firm and Branch	Category 5 only	Quarterly and annually	Category 5
B20C	Liabilities (Domestic)	Domestic Firm	Category 5 only	Quarterly and annually	Category 5
B20D	Equity	Domestic Firm	Category 5 only	Quarterly and annually	Category 5
B20E	Liabilities (Branch)	Branch	Category 5 only	Quarterly and annually	Not applicable

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
B20F	Analysis of Reserve Movement	Domestic Firm	Category 5 only	Quarterly and annually	Category 5
B30	Profit and Loss	Domestic Firm and Branch	Category 1, 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Category 1, 2
B40	Income Statement - Islamic Financial Institutions	Domestic Firm and Branch	Category 5 only	Quarterly and annually	Category 5 only
B50	Expenditure Based Capital Minimum (ECBM)	Domestic Firm	Category 2, 3A, 3B, 3C, <u>3D</u> and 4	Quarterly and annually	Not applicable
B60	Capital Resources calculation	Domestic Firm	All Categories	Quarterly and annually	Category 1, 2 and 5
B60A	Credit Risk – Overview	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2
B60A1	Credit Risk – Balance sheet Exposures	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2
B60A2	Credit Risk – Counterparty Exposures	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5
B60A3	Credit Risk - Securitisation	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5
B60B	Market Risk – Overview	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
B60B1	Market Risk – Interest Rate Risk	Domestic Firm	Category 1, 2, 3A	Quarterly and annually	Category 1, 2
B60B2	Market Risk - Maturity Approach	Domestic Firm	Category 1, 2, 3A	Quarterly and annually	Category 1, 2
B60B3	Market Risk Duration Approach	Domestic Firm	Category 1, 2, 3A	Quarterly and annually	Category 1, 2
B60B4	Market Risk - Equity	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5
B60B5	Market risk – Currency	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5
B60B6	Market Risk Options and Commodities	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2
B60B7	Market risk – VAR	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2, and 5
B60C	Operational Risk	Domestic Firm	Category 1, 2, 3A and 5	Quarterly and annually	Category 1, 2 and 5
B70	Large Exposure	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly only	Category 1, 2 and 5
B80	Liquidity	Domestic Firm and Branch	Category 1 and 5	Quarterly only	Not applicable
B90	Liquidity Coverage Ratio	Domestic Firm and Branch	Category 1 and 5	Quarterly and annually	Not applicable

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
B95	Net Stable Funding Ratio (NSFR)	Domestic Firm	Category 1 and 5	Quarterly and annually	Not applicable
B100	Declaration by Authorised Firms	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B120	Interest Rate Risk in the Non-Trading Book	Domestic Firm and Branch	Category 1 and 2	Quarterly and annual	Category 1 and 2
B130	Credit Activity	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Not applicable
B140	Arrears and Provisions	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Category 1 and 5
B150	Loans Restructured	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Category 1 and 5
B160	Investment activity	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Not applicable
B170	Investment Fair Value	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Not applicable
B180	FX Exposure	Domestic Firm and Branch	Category 1, 2, 3A and 5	Quarterly and annually	Not applicable
B190	Funding Schedule	Domestic Firm and Branch	Category 1, 2 and 5	Quarterly and annually	Not applicable
B200	Funding concentration	Domestic Firm and Branch	Category 1, 2 and 5	Quarterly and annually	Not applicable

PRUDENTIAL – INVESTMENT, INSURANCE INTERMEDIATION AND BANKING (PIB)

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
B210	Wealth Management	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B220	Fund and Account Management Services Schedule of Custody and Asset Management	Domestic Firm and Branch	All Categories	Quarterly and annually Annual	Not applicable
B230	Dealing overview and personnel	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B240	Dealing and Arranging	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B250	Outward Remittance	Domestic Firm and Branch	Category 1 and 5	Quarterly and annual	Not applicable
B260	Inward Remittance	Domestic Firm and Branch	Category 1 and 5	Quarterly and annual	Not applicable
B270	Insurance Intermediation and Underwriting	Domestic Firm and Branch	Any Category of Authorised Firm licensed as an Insurance Intermediary or Insurance Manager	Quarterly and annual Annual	Not applicable

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
	Schedule of Insurance monies				
B280	Staffing and Conduct	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B290	Related Person Schedule	Domestic Firm and Branch	All Categories	Quarterly and annually	Not applicable
B300	Leverage Ratio	Domestic Firm	Category 1, 2 and 5	Quarterly and annually	Not applicable

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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	<u>3BC</u>	NO	YES	YES
Managing a Collective Investment Fund	<u>3BC</u>	NO	YES	YES
Managing a Restricted PSIA	<u>3BC</u>	NO	YES	YES
Providing Custody	3B or 3C	NO	YES	YES
Providing Trust Services	<u>3BC</u> or <u>4</u>	NO	YES	YES
Acting as the Trustee of a Fund	<u>3CB</u>	NO	YES	YES
<u>Providing Money Services (issuing Stored Value)</u>	<u>3C</u>	<u>NO</u>	<u>YES</u>	<u>YES</u>

Financial Services	Prudential Category	Capital requirement	Systems and controls requirement	PII cover
<u>Providing Money Services (other than issuing Stored Value)</u>	<u>3D</u>	<u>NO</u>	<u>YES</u>	<u>YES</u>
Arranging Deals in Investments	4	NO	YES	YES
Advising on Financial Products	4	NO	YES	YES
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
Arranging Credit and Advising on Credit	4	NO	YES	YES
<u>Operating a Crowdfunding Platform</u>	<u>4</u>	<u>NO</u>	<u>YES</u>	<u>YES</u>
<u>Arranging or Advising on Money Service</u>	<u>4</u>	<u>NO</u>	<u>YES</u>	<u>YES</u>
Managing an Unrestricted PSIA	5 or 1	YES	YES	NO

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APP9 LIQUIDITY

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A9.4 The Net Stable Funding Ratio (NSFR)

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Required Stable Funding (RSF)

- A9.4.2** (1) An Authorised Firm must calculate its RSF by adding together:
- (a) the adjusted carrying values of its assets, calculated in accordance with (2); and
 - (b) the adjusted carrying values of its off-balance sheet (OBS) Exposures (or potential liquidity Exposures), calculated in accordance with (3).
- (2) An Authorised Firm must calculate the adjusted carrying values of its respective assets by:
- (a) assigning the carrying value of each asset to the applicable RSF Category set out in Table 1 to this Rule;
 - (b) adjusting the carrying value of each asset by multiplying it by the applicable RSF Factor set out in Table 1; and
 - (c) adding together each adjusted carrying value.
- (3) An Authorised Firm must calculate the adjusted carrying values of its respective OBS Exposures (or potential liquidity Exposures) by:
- (a) assigning the carrying value of each Exposure to one of the OBS-RSF Categories set out in Table 2 to this Rule;
 - (b) adjusting the carrying value of each asset by multiplying it by the applicable OBS-RSF Factor for that OBS-RSF Category, as set out in Table 2; and
 - (c) adding together each adjusted carrying value.

Table 1 - RSF Factors and Categories	
RSF Factor	Components of RSF Category

0%	<p>(a) coins and banknotes immediately available to meet obligations;</p> <p>(b) all Central Banks reserves (including required reserves and excess reserves);</p> <p>(c) all claims on Central Banks with residual maturities of less than six months; and</p> <p>(d) trade date receivables arising from sales of financial instruments, foreign currencies and commodities that:</p> <p style="padding-left: 40px;">(i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or</p> <p style="padding-left: 40px;">(ii) have failed to, but are still expected to, settle.</p>
5%	Unencumbered assets included in Rule A9.2.6(2) (Level 1 HQLA), excluding assets receiving a 0% RSF Factor as specified above.
10%	Unencumbered loans to financial institutions with residual maturities of less than six months, if the loan is secured against Level 1 HQLA included in Rule A9.2.6, and where the bank has the ability freely to hypothecate the received collateral for the life of the loan.
15%	<p><u>All loans to financial institutions with a residual maturity of less than six months, other than those receiving a 10% RSF Factor as specified above.</u></p> <p>Unencumbered assets as defined in Rule A9.2.7(2) (Level 2 HQLA).</p>
50%	<p>(a) unencumbered assets included in Rule A9.2.8(2) (Level 2B HQLA), excluding any haircuts required under that Rule;</p> <p>(b) any HQLA as defined in Rules A9.2.6 to A9.2.8 that are encumbered for a period of between six months and less than one year;</p> <p>(c) all loans to financial institutions and Central Banks with residual maturity of between six months and less than one year;</p> <p>(d) operational deposits, that is, deposits held at other financial institutions for operational purposes, that are subject to the 50% ASF Factor set out in the table in Rule A9.4.1; and</p> <p>(e) all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, and loans to sovereigns and PSEs.</p>
65%	(a) unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 50% or lower risk weight under Rule 4.12.17; and

	<p>(b) other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 50% or lower risk weight under section 4.12 (Risk Weights).</p>
85%	<p>(a) cash, securities or other assets posted as initial margin for derivative contracts or Shari'a compliant hedging contracts and cash or other assets provided to contribute to the default fund of a Central Counterparty (CCP). Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF Factor, they should retain that higher factor;</p> <p>(b) other unencumbered performing loans that do not qualify for the 50% or lower risk weight under section 4.12 and have residual maturities of one year or more, excluding loans to financial institutions;</p> <p>(c) unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA; and</p> <p>(d) physical traded commodities, including gold.</p>
100%	<p>(a) all assets that are encumbered for a period of one year or more;</p> <p>(b) NSFR derivative assets (net of NSFR derivative liabilities) if NSFR derivative assets are greater than NSFR derivative liabilities;</p> <p>(c) NSFR Shari'a compliant hedging assets net of NSFR Shari'a compliant hedging liabilities if NSFR Shari'a compliant hedging assets are greater than NSFR Shari'a compliant hedging liabilities;</p> <p>(d) all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities;</p> <p>(e) 20% of derivative liabilities (i.e. negative replacement cost amounts), before deducting variation margin posted; and</p> <p>(f) 20% of Shari'a compliant hedging liabilities.</p>

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APP10 SUPERVISORY REVIEW AND EVALUATION PROCESSES

A10.1 IRAP

Guidance

Application

1. This Guidance is relevant to an Authorised Firm described in section 10.3 (that is, a firm in Category 1, 2, 3A, 3B, 3C, 3D, 4 (if it provides Money Transmission, Account Information Services or Payment Initiation Services) or 5 in regard to an Internal Risk Assessment Process (referred to in this Guidance as an IRAP).
2. The following Guidance generally assumes that the Rules relating to capital adequacy in PIB apply to an Authorised Firm on a solo basis. However, the Guidance is to be read as also applying where the capital adequacy requirements in these modules apply to the Financial Group of an Authorised Firm on a consolidated basis.

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A10.3 Supervisory Review and Evaluation Process (SREP)

Guidance

Application

1. This Guidance is relevant to an Authorised Firm as described in section 10.5 (that is, a firm in Category 1, 2, 3A, 3B, 3C, 3D, 4 (if it provides Money Transmission, Account Information Services or Payment Initiation Services) or 5) in regard to a Supervisory Review and Evaluation Process (referred to in this Guidance as a SREP).

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