

BUSINESS PLAN 2013/2014

DFSA

The Dubai Financial Services Authority (DFSA) is the independent regulator of financial and ancillary services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai, UAE.

The DFSA regulates a broad range of Firms based in the DIFC, including banks, insurers, fund managers, advisory firms and brokers, exchanges and clearing houses, together with credit rating agencies, auditors and other ancillary service providers. These Firms provide a wide range of services to their clients, including Islamic finance.

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 to investigate the affairs of DIFC companies and partnerships where a material breach of DIFC Companies Law is suspected and to pursue enforcement remedies that are available to the Registrar.

DUBAI FINANCIAL SERVICES AUTHORITY

VISION

To be an internationally respected regulator and a role model for financial services regulation in the Middle East.



MISSION

To develop, administer and enforce world-class regulation of financial services within the DIFC.



REGULATORY APPROACH

To be risk-based and to avoid unnecessary regulatory burden.



VALUES

To expect high standards of ethical conduct and integrity from the DFSA and its people.



To demonstrate professionalism, independence, efficiency, leadership and resolve in the discharge of our responsibilities.



To ensure administrative fairness, consultative process, accessibility, impartiality and accountability in the performance of our functions.



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DFSA OBJECTIVES AND PRINCIPLES

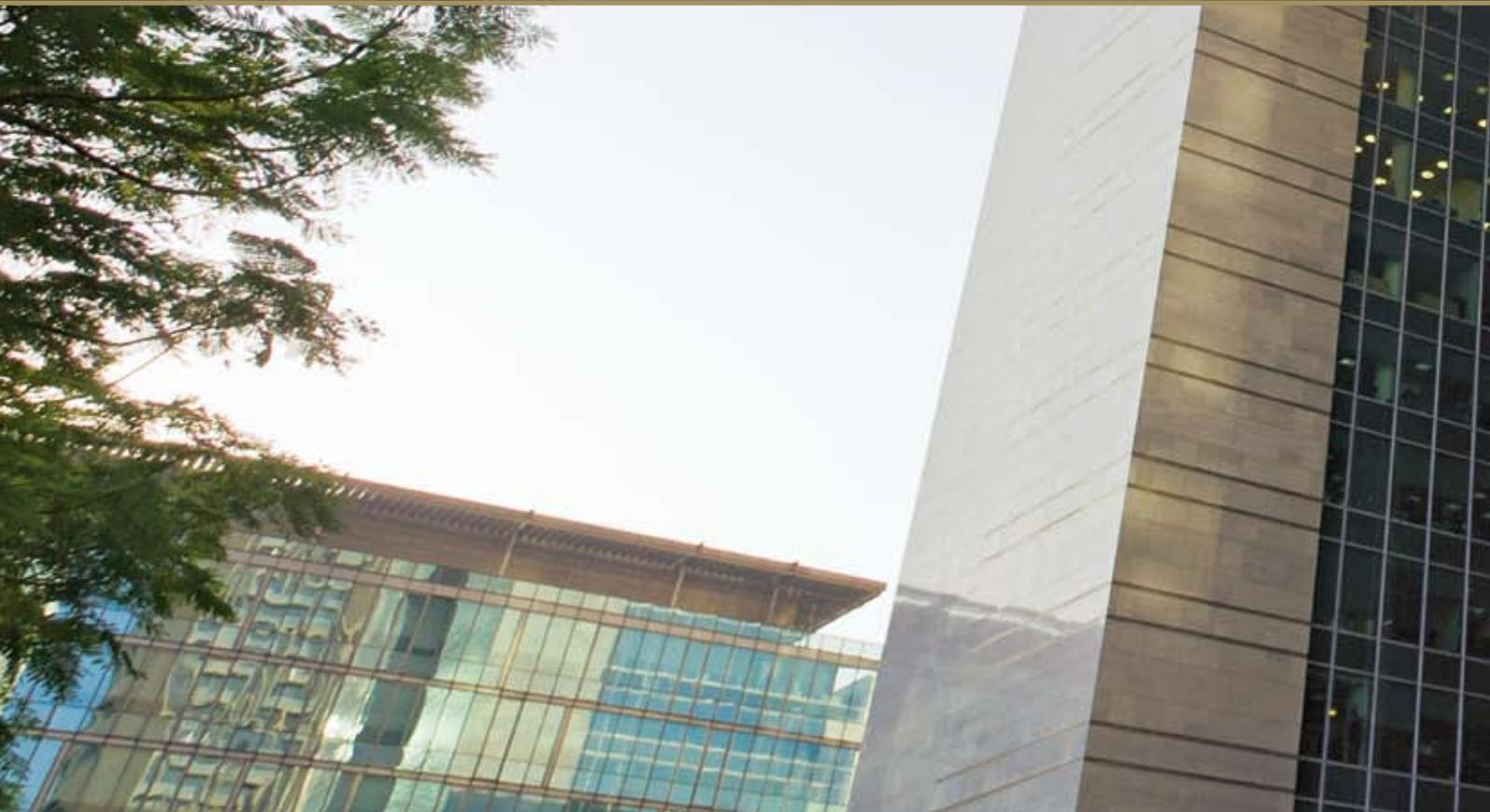
The DFSA has established, and strives to maintain, an environment that fosters the guiding principles of integrity, transparency and efficiency. It has done so by embedding high standards in a clear, succinct and flexible regulatory framework based on international regulatory standards, as relevant to a modern international financial centre.

In discharging its regulatory mandate, the DFSA has a statutory obligation to pursue the following objectives:

- To foster and maintain fairness, transparency and efficiency in the financial services industry (namely, the financial services and related activities carried on) in the DIFC;
- To foster and maintain confidence in the financial services industry in the DIFC;
- To foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk;
- To prevent, detect and restrain conduct that causes or may cause damage to the reputation of the DIFC or the financial services industry in the DIFC through appropriate means, including the imposition of sanctions;
- To protect direct and indirect users and prospective users of the financial services industry in the DIFC; and
- To promote public understanding of the regulation of the financial services industry in the DIFC.

In exercising its powers and performing its functions, the DFSA shall take into consideration the following guiding principles:

- Pursuing the objectives of the DIFC as set out under Dubai Law in so far as it is appropriate and proper for the DFSA to do so;
- Fostering the development of the DIFC as an internationally respected financial centre;
- Co-operating with and providing assistance to regulatory authorities in the United Arab Emirates (UAE) and other jurisdictions;
- Minimising the adverse effects of the activities of the DFSA on competition in the financial services industry;
- Using its resources in the most efficient way;
- Ensuring that the cost of regulation is proportionate to its benefit;
- Exercising its powers and performing its functions in a transparent manner; and
- Complying with relevant generally accepted principles of good governance.





STATEMENT *by the* CHIEF EXECUTIVE



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This Business Plan sets out our work programme for the period 2013 to 2014 and covers both core activities and strategic priorities. Our Business Plan is aligned to our statutory objectives, and aims to ensure we deliver the outcomes expected of us. In developing the DFSA's current business plan, we had regard to the global and regional economic environment, international regulatory developments and the trends emerging in the DIFC. One overarching theme emerged; the increased maturity of the DIFC and the business transacted here and indeed of the DFSA as a regulator. The DFSA has now been in operation as an independent entity for more than eight years. In that period, we have put in place a world-class regulatory regime and established ourselves, despite our small size, as a respected and active member of the international regulatory community. This has occurred against a backdrop of rapid change in international regulatory standards, stemming from the global financial crisis, and - at times - exceptionally challenging conditions in global financial markets. At the same time, the population of regulated entities within the DIFC and the diversity of activities conducted by those entities has continued to expand.

The advancing maturity of the DFSA and of our regulated population has a number of consequences for our business planning:

- Higher levels of activity and complexity in our Firms have inevitably placed increased demands on our regulatory resources. This in turn, requires us to apply greater risk sensitivity in our allocation of resources as we seek to maintain high standards of regulation.
- Our regulatory remit expanded in 2012, as we now have AML oversight of all relevant entities in the DIFC (not limited to DFSA-licensed entities) and have assumed a delegated responsibility from the Registrar of Companies for investigations and enforcement relating to material breaches of Companies law.
- Our risk appetite evolves as we respond to market developments and maintain vigilance in higher risk areas such as financial crime.
- Recognition that following a period of relatively significant Rulebook changes, stability in our regulatory framework is desirable. This will reduce the incremental burden imposed on our regulated population and support our refocus on the core activities of supervision, authorisation and enforcement. The latter will include more emphasis on conduct and unethical behaviour.

Additionally, the global financial crisis has demonstrated the importance of international engagement, given the rapid spread of risks (both within and between financial groups) across jurisdictional boundaries and the more prominent role of international standard-setters. The DFSA will maintain and, where needed, deepen relationships with other regulators to support effective regulation. Our contributions to international standard-setting will continue, with efforts more tightly focused on the key standard-setting bodies.

STATEMENT BY THE CHIEF EXECUTIVE (CONTINUED)

In support of the Centre's continued development, the DFSA will maintain a robust, internationally respected regulatory regime. We shall continue to work closely with the DIFC Authority (DIFCA). This extends to supporting their efforts with regard to the strategic development of Dubai's financial sector, as far as those efforts relate to regulatory matters. We will continue to strengthen our engagement with UAE federal regulators to support the sound functioning of the UAE financial services industry.

Given the context I have described above, Quality, International Engagement and Collaboration have been identified as our strategic themes for 2013 and 2014.

Quality relates to the fulfilling of our regulatory objectives in a growing Centre. This demands high quality in all our regulatory and support functions, especially with the increased scale and complexity of our actual and prospective regulated population. This theme also relates to the prudential standing and behaviour of Authorised Firms, with a particular focus on promoting ethical practices.

International Engagement relates to being involved with the global standard setting agenda to ensure that the resulting standards take account of the needs of jurisdictions such as our own. More than ever, international standards will be the dominant drivers of change in our Rulebook. Over the planning period a Financial Sector Assessment Programme (FSAP) will be conducted by the International Monetary Fund (IMF)/World Bank, where our regulatory regime will be assessed against the International Association of Insurance Supervisors (IAIS), the International Organisation of Securities Commissions (IOSCO) and Basel Committee core principles. Additionally, our AML and CFT regime will be assessed by the Financial Action Task Force (FATF). Achieving good outcomes on these assessments is considered important to the reputation of the DIFC and our standing as a world-class regulator.

Collaboration relates to our engagement with other regulators, both within and beyond the UAE. Our ability to supervise effectively is supported by strong relationships with regulators from other jurisdictions. This is especially important for jurisdictions from which either a large number of Firms or Firms of significant size originate. In the post-crisis period, colleges of regulators are playing a more prominent role in supervising large financial institutions with cross-border operations and we shall participate in such colleges, where appropriate. Domestically, we shall continue to concentrate on building productive relationships with relevant federal authorities. We shall also work alongside DIFCA to support their efforts towards developing the financial services sector in the DIFC and Dubai.

STATEMENT BY THE CHIEF EXECUTIVE (CONTINUED)

In delivering our strategic objectives and in our day-to-day activities, the DFSA will continue to engage with our regulated community and with other stakeholders. I encourage you to engage with us. Whether by way of our consultation papers, our regular outreach sessions or indeed, direct interactions with me or my staff, we welcome your views.

A handwritten signature in black ink, appearing to read 'Ian Johnston'.

Ian Johnston
Chief Executive







STRATEGIC THEMES *in* ACTION

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The DFSA has identified three strategic themes to drive our work over the course of the next two years. These themes have guided the development of more detailed plans regarding the DFSA's operations. A selection of the most significant actions from these plans is provided below. These actions are aligned with our risk appetite and follow from our understanding of the regulatory, economic and DIFC environments.

QUALITY

We will authorise and supervise regulated entities and, where necessary, take enforcement action, in a risk-based, efficient and proactive manner. This forms a key part of our business-as-usual activities and fulfilment of our statutory objectives. To enhance our ability to respond satisfactorily to the increased scale of our regulated community and complexity of the activities undertaken, we shall endeavour to align our resources to risks, especially supervisory risks, more sensitively. This will continue through the plan period supported by improvements to management information systems and refinements of our risk management processes. We will also conduct a review of our main internal regulatory information system used for Firms and the system used to capture data from Firms, and enhance their capabilities where necessary. We will ensure that high quality is maintained in our core oversight responsibilities of the Centre's exchanges. A focus for 2013 will be the implementation of the revised Authorised Market Institution (AMI) module, an initiative that will closely align our Markets regime to the IOSCO-CPSS principles for financial market infrastructures and European Union Directives. Broadly, we shall continue to calibrate both our regulatory requirements and our licensing, supervisory and enforcement activity against our changing perception of risks, and our risk appetite.

We will promote good conduct by Authorised Firms. While much of the regulatory fall-out from the crisis focused on prudential standards, regulators have an equally important responsibility to promote sound and ethical conduct in financial services. We anticipate exploring conduct issues in greater depth through the execution of a number of theme reviews; these are likely to cover topics such as remuneration and incentive programmes for client-facing staff, consumer protection and suitability, and market conduct by Firms engaged in trading activities. Further, we shall consider ways to seek feedback on our regulatory regime from end-users of products and services provided by Authorised Firms, in addition to seeking such feedback from Authorised Firms as we have done in the past.

We will continue to ensure that we retain a high quality staff, equipped with the necessary skills. The quality of regulation within the Centre is directly linked to the capability of our regulatory and support staff. Given the regulatory challenges associated with the increasing maturity of the Centre, we shall remain vigilant in ensuring that we have staff with relevant skills and experience. The DFSA retains a strong commitment to the continued professional development of all staff through

STRATEGIC THEMES *in ACTION* (CONTINUED)

a wide range of education and training opportunities. Related to professional development, the development of regulatory skills among UAE Nationals remains a priority. Graduates from our Tomorrow's Regulatory Leaders (TRL) Programme account for a growing share of DFSA staff and are making increasingly important contributions. We will also continue to develop in-house subject matter experts and, as required, consider using expert skills sourced externally to ensure we can deliver our regulatory outcomes.

Building UAE National Capability

Since the DFSA's inception, there has been a strong commitment to developing UAE National graduates as first class regulators, to join our employee cadre and - more generally - to support the development of regulatory skills and knowledge in the UAE. Our main focus has been on the TRL training and development programme. This programme continues with eight TRL Associates from the latest two cohorts. As a result of running the programme for seven years, we have twelve TRL Programme graduates working in regulatory roles, a number of whom conduct training for the new generations of TRL Associates. In total, UAE Nationals comprise 30% of our regulatory staff.

Amid the growing number of TRL Programme graduates, an increased emphasis is being placed on mentoring to develop their regulatory judgement and leadership capability. This has been formalised through the launch of the Senior Mentor Programme in June 2012. This Programme will act as the key driver to build UAE National capability at more senior levels in the DFSA over 2013 and 2014.

INTERNATIONAL ENGAGEMENT

We will monitor and engage with key international standards-setters and promote standards development. The DFSA will remain heavily engaged in the formation of international standards. We shall focus particularly on the key global standard setting bodies (e.g. Basel Committee, IOSCO, IAIS) and expect to reduce somewhat the effort devoted to bodies whose standards are deemed less critical for our own regulatory activities.

Engagement with Global Standard-Setters

Since inception, the DFSA has sought to be actively involved in global standard-setting bodies, in keeping with our efforts to maintain a world-class regulatory regime. Such efforts have intensified in the post-crisis period amid a large volume of changes in global standards. The table below provides a summary of our current engagement with banking, securities, insurance and Islamic finance standard-setters.

Basel	<ul style="list-style-type: none"> • Basel Committee (Observer) • Consultative Group (Co Chair)
IOSCO	<ul style="list-style-type: none"> • Enforcement and Exchange of Information Committee (Vice Chair) • Emerging Markets Committee • Commodities Derivatives Committee • Assessment Committee and Implementation Task Force Sub-Committee • Over-the-Counter Derivatives Working Group
IAIS	<ul style="list-style-type: none"> • Technical Committee • Governance & Compliance Sub-Committee (Chair) • Insurance Groups and Cross-Sectoral Issues Sub-Committee • Supervisory Co-operation Sub-Committee • Multi-lateral Memorandum of Understanding Signatories Working Group
IFSB	<ul style="list-style-type: none"> • Technical Committee • Capital Adequacy and Sukuk Securitisation Working Group • Risk Management for Takaful Undertakings Working Group

We will prepare for, and publish, assessments of our regulatory regime's alignment with international standards. Much work has already been completed in preparation for the IMF/World Bank FSAP visit, which is currently scheduled for early 2013. The DFSA is committed to publicising the results of our self-assessment of our regulatory regime against international standards, consistent with our value of transparency, and to responding to any deficiencies identified. We shall also encourage the publication of the IMF/World Bank's assessment of the DFSA regime. Another focus over the business plan horizon is the FATF assessment of our AML regime, which is anticipated in 2014.

We will continue to align our regulatory regime with international standards. The nature of work emerging from standard setters is shifting away from wholesale reviews of principles (and associated methodologies) and capital regimes toward more discrete issues (e.g. resolution, supervising systemically important firms). The increased importance of international standard-setting and, critically, implementation in the post-crisis period leaves less scope or need for purely local responses. More than ever before, international standards will be the dominant drivers of change in our Rulebook. Planned reviews are listed in the box below. After a significant period of rapid change in global standards and, consequently, our Rulebook, we anticipate a slower pace of change going forward.

DFSA Rulebook Reviews

Anti-Money Laundering/Combating the Financing of Terrorism

The DFSA will complete the review of the AML/CFT regime. Changes to the regime were consulted on in Consultation Paper Number 86 and, now the period of public consultation has ended, the new regime will be finalised and introduced, ensuring that the DFSA's regime in this important area reflects international best practice.

Resolution

A common theme among standards-setters has been the processes and powers available to deal with failed or failing firms. This covers areas such as deposit insurance (and similar consumer/investor protection schemes in other sectors) but also insolvency regimes, and the ability of supervisors to intervene to resolve failing firms, including facilitating transfers of business. A review of resolution arrangements in the DIFC will begin in 2013.

Auditor supervision

The International Forum of Independent Audit Regulators (IFIAR) has adopted a set of core principles for auditor supervision, and other jurisdictions have begun to implement their own passporting regimes. In 2011, we made minor amendments to our rules relating to Auditors and their supervision. We plan to conduct a full review of our regime for auditors in 2013.

STRATEGIC THEMES *in ACTION* (CONTINUED)

Funds regime

The DFSA will consider refinements to the funds regime in 2013. The review completed in 2010 postponed consideration of a number of issues, such as whether property funds may utilise open-ended structures, and whether single pricing should be the only permitted option. These issues, together with emerging international standards on Collective Investment Schemes, will be considered as part of the review.

Regulatory powers

The current review of the structure and powers of the Regulatory Appeals Committee and Financial Markets Tribunal will continue into 2013. Additionally, a review will commence considering our supervisory powers, covering whether the circumstances in which they can be used are appropriately specified, and whether the procedural requirements and internal processes are right.

COLLABORATION

We will continue to develop relationships with other DIFC entities. Whilst respecting the independence of the Centre's bodies, we shall continue to build strategic relationships to support the development of the Centre. Similarly, we look to strengthen such relationships with the Office of the Governor and the Higher Board of the DIFC¹. To the extent our regulatory remit allows, we shall also support DIFCA in their efforts developing the financial services sector of Dubai in accordance with the Government of Dubai's plans.

We will deepen existing relationships with UAE regulators. A key focus will be the continued development of productive relationships with the Central Bank of the UAE (CBUAE), the Emirates Securities and Commodities Authority (SCA) and the Insurance Authority of the UAE (IA) with the aim of contributing to a stable, efficient and modern financial services system in the UAE. This includes contributing to financial stability by assisting, as appropriate, in the development of macro-prudential supervision. A particular emphasis will be the further strengthening of operational ties.

We will maintain and, where necessary, further develop relationships with regulators outside of the UAE. In the post-crisis period, there is an increased emphasis on the exchange of information between regulatory authorities. We need to continue to be active and engaged collaborators with whom our fellow regulators are happy to deal. Given the presence of a substantial number of branches and subsidiaries in the Centre, efforts shall continue to be directed at further developing relationships with regulators in key jurisdictions (e.g. in the UK where a regulatory restructure is underway, US, Switzerland, India, China and Japan). The increased relevance of supra-national regulatory bodies in the European Union (EU), together with the supervision of credit rating agencies under our newly launched regime, necessitates a strengthening of relations with EU authorities such as the European Securities and Markets Authority.

We will continue our participation in supervisory colleges and pursue crisis management frameworks where deemed necessary. These institutions and arrangements are a key part of the regulatory response to strengthening group risk supervision. In our capacity as a host regulator, we shall be actively involved in supervisory colleges where possible and, where necessary, pursue crisis management frameworks with fellow regulators.

¹According to Dubai Law 7 of 2011, issued in April 2011 (which amended Dubai Law 9 of 2004) "The Higher Board of Directors shall undertake co-ordination between the Centre's Bodies without affecting their independence."





PROGRESS AGAINST *the* BUSINESS PLAN

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Each year, the DFSA publishes an Annual Report, which highlights the DFSA's activities and achievements over the past year. The Annual Report is, in essence, a progress report against the Business Plan.

In addition to the Annual Report, 'The DFSA in Action' is an annual publication that reports on regulatory and non-regulatory developments and DFSA activities.

On an on-going basis, the DFSA publishes updates, notifications and media releases on its website. DFSA publications are ordinarily available in both English and Arabic.

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