

Regulatory Update

Middle East Edition

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JULY 2017

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1.0 DFSA AND DIFC LATEST DEVELOPMENTS

1.1 Amendments to DFSA Legislation

The Dubai Financial Services Authority (DFSA) have made updates across all relevant rulebooks to incorporate the changes to DFSA Authorised Firms Capital Requirements and Liquidity Requirements following the release of Consultation Paper (CP) No 113 – Capital Requirements Review and CP No 114 – Liquidity Requirements Review. The changes will come into effect on 1st January 2018.

There have also been changes to the Fees Rule Module (FER) following the release of CP No 110 – DFSA Fees.

All relevant consultation papers were covered in the [February](#) and [June](#) 2017 editions of the CCL Regulatory Update, respectively.

1.2 DFSA Issues Letter to SEO's Regarding Retail OTC Derivatives

The DFSA issued a 'Dear SEO' letter to all authorised firms regarding Retail Over-the-Counter (OTC) Derivatives (in the Dubai International Finance Centre (DIFC)). The DFSA remain concerned that Retail Clients may not adequately understand the nature, features and risks of OTC Derivatives. To combat this, the DFSA have set out its List of Expectations. These Expectations are relevant to all authorised firms carrying on any financial services activities with, or on behalf of, retail clients in relation to OTC Derivatives, and including, but not limited to, Dealing (whether as Agent or Principal), Arranging and Advising.

The DFSA explains the Expectations in the Appendix of the Dear SEO letter but ask for particular attention to the following:

- a) extending the scope of applicable leverage limits
- b) limiting the offering of binary options
- c) prohibiting the use of credit cards to fund accounts
- d) requiring enhanced product governance and account-level appropriateness determinations; and
- e) imposing new standards for risk disclosure in marketing and other communications.

1.3 Number of Licensed Companies in DIFC up 6.2% in First Half of 2017

The DIFC has recorded significant growth in the first half of 2017. It has grown by 6.2% to 1,750 incorporated companies, and the number of regulated financial institutions has risen to 463. An increase to 21,628 professionals has been recorded within the DIFC workforce, and projections say that this number is expected to increase as more and more companies become established at the Centre. This growth and the implementation of the FinTech Hive reinforces the DIFC's ambition to achieve the targets set forth in the 2024 Strategy, whereby the DIFC should triple in size, and rank within the top 10 financial centres globally.

1.4 Two Firms Falsely Claim to be DFSA Regulated

Following investigations, the DFSA have found two firms making false claims pertaining to licenses issued by the DFSA and claiming to be members of the DIFC financial services community. The DFSA have established that the following firms do not have the licenses or premises within the DIFC as claimed and the DFSA strongly advise that no communications with either firm should be initiated and that no money should be exchanged in any instance.

The two firms investigated are:

- Mazyad Capital LLC
- Harding Capital Group

1.5 DFSA Fines and Bans Former SEO

Mr Andrew Grimes, former SEO of a DFSA regulated firm, has been fined US\$ 52,500 (AED 192,675) by the DFSA and banned from performing Financial Services in or from the DIFC, following a thorough investigation conducted jointly between the DFSA and the Insurance Authority of the UAE. On numerous occasions, Mr Grimes provided intermediation services which is a prohibited act. He also did not undertake the correct methods when onboarding clients and did not follow legislation set forth by the DFSA.

Further information

If you would like to discuss these updates in more detail, please contact Clare Curtis (CCurtis@cclcompliance.com)

2.0 ADGM AND FSRA LATEST DEVELOPMENTS

2.1 FSRA Issue Dear SEO Letter Regarding Qatar's Terrorist Financing

A letter has been issued by the Abu Dhabi Global Market's Financial Services Regulatory Authority (FSRA) updating the list of terrorist organisations and individuals and asking banks and financial institutions, money changers, and finance and investment companies operating in the UAE to undertake the actions below on all designated terrorist organisations and individuals. (explained further in 3.2 of this edition of the Regulatory Update).

- 1) Search and freeze any account(s), deposits, investments, or any other financial instruments associated with the designated persons.
- 2) Identify any credit facilities, safe deposit boxes, or any financial transfers executed from the inception of the
- 3) opening of account(s) till date.
- 4) Deny access to the safe deposit boxes.
- 5) Stop any financial transfers in the names mentioned in the attached list
- 6) Confirm the implementation of the above-mentioned instructions.
- 7) Provide the following:
 - Detailed reports of amounts deposited or transferred to the account(s) (in operation at present and the closed) and amounts withdrawn or transferred from/to the account(s), including the name of depositors/transferrers, beneficiaries and their sources, from inception till date, supported by the following documents:
 - Account(s) Opening Forms and related documents
 - Authorised person(s) to operate the account(s)
 - Account(s) statements from their inception till date
 - Deposit/withdrawal/transfer slips
 - Swift copy & other financial transfer receipts
 - Documents relating to verification of source of funds credited to the account(s)
 - Application forms for loans & other facilities and related documents
 - Cheques
 - Any other relevant documents

Firms were required to swiftly comply with Items 1 to 6 and send confirmation on the implementation of the above instructions, including nil findings. All findings should have been sent to the FSRA by no later than close of business, 3rd August 2017.

2.2 Partnership with Malaysia to Harbour and Promote Innovation

In a bid to strengthen Abu Dhabi Global Market's (ADGM) strategic relationship with Labuan International Business and Financial Centre (LIBFC) and Labuan Financial Services Authority (LOFSA) a new partnership has been reached. The partnership will encourage more joint efforts and initiatives to evolve and strengthen FinTech developments, while exploring cross-border investment activities to serve Middle Eastern and Asian markets. This will lead to better

understanding and a greater ability to share relevant information on banking, financial services, securities legislation and regulations in both markets. The partnership will especially consider innovations in FinTech and green finance along with regulatory cooperation over the supervision of financial institutions.

2.3 Implementation of Common Reporting Standard Regulations

Common Reporting Standards (CRS) have been enacted by the Board of Directors of ADGM and are made effective immediately. The Regulations are also publicly available and published on the ADGM website to advocate transparency and good corporate governance practice. The new regulations require all firms registered by the ADGM to comply with CRS Regulations within the first annual reporting due date in the UAE on 30th June 2018.

Further information

If you would like to discuss these updates in more detail, please contact Clare Curtis (CCurtis@cclcompliance.com)

3.0 MIDDLE EAST REGULATORY UPDATES

3.1 Updated List of Designated Terrorist Organisations and Individuals

The Arab states of Bahrain, Egypt, Saudi Arabia and the United Arab Emirates have published a list of eighteen names of organisations and individuals that have been financing or facilitating terrorism. These names have origins from Libya, Qatar and Yemen. Below is the list of organisations and individuals:

First/Natural Persons

- 1) Khalid Saeed Fadhal Rashed Al Bouncein – Qatari National.
- 2) Shaqer Jumma Khamis Al Shahwani – Qatari National.
- 3) Saleh Ahmad Al Ghanim – Qatari National.
- 4) Hamid Hamad Hamid Al Ali – Kuwaiti National.
- 5) Abdullah Mohammad Ali Al Yazidi – Yemeni National.
- 6) Ahmad Ali Ahmad Barnoud – Yemeni National.
- 7) Mohammad Bakr Al Dabaa – Yemeni National.
- 8) Al Saadi Abdullah Ebrahim Bukhazem – Libyan National.
- 9) Ahmad Abd Al Jaleel Al Hasnawai – Libyan National.

Second/Juridical Persons

- 1) Al Balagh Charitable Foundation (Yemen).
- 2) Al Ihsan Charitable Society (Yemen).
- 3) Rahma Charitable Organisation (Yemen).
- 4) Benghazi Revolutionaries Shura Council (Libya).
- 5) Al Saraya Media Centre (Libya).
- 6) Boshra News Agency (Libya).
- 7) Rafallah Sahati Brigade (Libya).
- 8) Nabaa TV (Libya).
- 9) Tanasuh Foundation for Dawa, Culture and Media (Libya).

The same action expected from the Central Bank Circulars 156/2017 and 157/2017 is applicable with the additional designated organisations and individuals. Please refer to the [June Regulatory Update](#) for further information on previous due diligence expected from firms on the designated terrorist organisations and individuals.

3.2 U.S. and Qatar Sign Agreement on Combating Terrorism Financing

The United States and Qatar have co-authored an agreement that highlights the two countries' desire to combat the financing of terrorism. The agreement was signed with the backdrop of sanctions imposed on Qatar by Saudi Arabia,

Bahrain, the United Arab Emirates and Egypt when they accused Qatar of financing extremist groups, in June. The signed agreement describes a series of steps that both countries will undertake in the coming months to disable terror financing channels and strengthen counter terrorism activities globally. The United Arab Emirates, Saudi Arabia, Egypt and Bahrain released a joint statement appreciating the United States' involvement in fighting terrorism but highlighted their desire to continue to monitor Qatar's actions closely.

Further information

If you would like to discuss these updates in more detail, please contact:
Clare Curtis (CCurtis@cclcompliance.com)

4.0 INTERNATIONAL DEVELOPMENTS

4.1 UK Regulator Extends SM&CR Regime to Investment Firms

The Financial Conduct Authority (FCA) have extended the Senior Managers and Certification Regime (SM&CR) already in place for banks to investment firms. This allows better oversight and the ability to hold senior managers accountable for misconduct on the FCA's watch. Senior managers must define to the UK regulator what their responsibilities are and that they are accountable for not only the firm's actions but also their staff. Senior Managers of firms who deal with consumers must be certified annually on their fitness, proprietary and skills. The five conduct rules proposed by the FCA will not come into effect until the Treasury has finalised them and then set a commencement date.

For further details of the proposed changes please refer to CCL Academy's recent publication "[Will You Have Accountability Too?](#)"

4.2 Regulator Calls on Banks to Replace Libor by 2022

Due to the multi-billion banking scandals, the FCA has indicated that Libor (London Interbank Offered Rate) will be replaced by 2022. Libor is unable to fulfil its objective of measuring the price that banks pay to borrow from each other as this activity has dropped dramatically post 2008 financial crisis. The replacement will be a system of rates that are more closely tied to the interest rates on actual loans. The specificities of the system are yet to be finalised. One option would be the Sterling Over Night Index Average (SONIA), which references unsecured short-term transactions in the Sterling market.

Further information

If you would like to discuss these updates in more detail, please contact:
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5.0 FINANCIAL CRIME UPDATES

5.1 Take Down of One of Bitcoin's Largest Exchangers

Alexander Vinnik, a Russian man believed to be the operator of BTC-e, a digital currency exchange that was used to launder \$4 billion for people involved in crimes that ranged from computer hacking to drug trafficking, has been indicted by a U.S jury. United States officials have discovered that Vinnik has now been linked to the failure of Mt. Gox, a Japan based Bitcoin exchange that collapsed after it was hacked. It is alleged that Vinnik 'obtained' funds from the hack of Mt. Gox and then laundered it through his digital currency exchange.

5.2 Watchdog Removes Taiwan from Money Laundering List

After meeting in Sri Lanka, the Asia/Pacific Group on Money Laundering (APG) has dropped Taiwan from its 10-member money laundering list due to their continual progress in combating Money Laundering crimes in the country. Substantial developments in tackling money laundering have been made over the past few years by Taiwan. They have

revised anti-money laundering regulation and have established cyber security protocols, and these revised legal standards demonstrate the countries determination to carry out reform.

Further information

If you would like a more detailed discussion on these or other enforcement actions, please contact:
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ABOUT CCL

CCL has been providing a comprehensive range of regulatory compliance service to firms in the financial services industry since 1988, with offices in London, Dubai and Mumbai. We combine a long history and extensive experience in financial services compliance with the expertise of a team of practitioners that includes former regulators, senior compliance professionals, lawyers and accountants.

Consultancy & Documentation

- Authorisation (Full Project Management)
- Pre & Post Authorisation Consultation
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Training

- Governance, Risk & Compliance
- Finance Induction
- CISI Qualifications

If you wish to discuss how CCL can assist you with any of the issues raised in this Regulatory Update, please contact one of the principals using the details below:

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This Regulatory Update provides information about the consultative documents and publications issued by various regulators which are still current, proposed changes to the Rules and Guidance set out in Handbooks, actual changes to Rules and Guidance that have occurred in the months leading up to the update and other matters of relevance to regulated firms. This Regulatory Update is intended to provide general summarised guidance only, and no action should be taken in reliance on it without specific reference to the regulators' document referred to.