

Regulatory Update

Middle East Edition

OCTOBER 2018

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1.0 DIFC AND DFSA LATEST DEVELOPMENTS

1.1 DFSA Publishes Report on OTC Fixed Income Securities Market

The DFSA has published a [report](#) following its thematic review throughout 2018 of the DIFC's over-the-counter (OTC) fixed income securities (FIS) market. The regulator carried out the review by analysing the Electronic Prudential Reporting System (EPRS) data submitted by DIFC firms, interviewing 16 market participants and conducting an online survey of active OTC FIS market players.

Five key observations from the report were produced and are as follows:

- The volume of OTC FIS has increased significantly between 1st January 2015 and 30th June 2017. It was also noted that the DFSA does not currently order detailed FIS transaction data and therefore is exploring the possibility of requiring firms to report specific transactional information in future returns.
- It was noted that obtaining the price of a particular FIS was not difficult to do.
- There is a potential pricing risk due to domination of the market by a few large companies. The DFSA has taken note of the potential for these firms to influence market prices.
- Subsequently should these dominating firms move their operations outside of the DIFC, transaction amounts could be considerably impacted.
- Finally, it was concluded that FIS issued by international entities were more liquid than those issued by UAE Companies due to: the small amount of FIS of UAE companies floating in the market, the small number of institutional investors, and less market liquidity by UAE companies. These factors mean they are seen as less attractive for investors.

The DFSA will be carrying out further research regarding the DIFC's OTC FIS market and any changes are likely to focus on disclosure requirements. Firms are encouraged to keep abreast of any amendments to legislation that may be made.

1.2 DFSA Opens FinTech Innovation Testing Licence Second Cohort

FinTech firms seeking to apply for an Innovation Testing Licence (ITL) can now apply to be part of the DFSA cohort, the stage before the official ITL application.

The DFSA ITL was introduced in 2017, for FinTech firms to test their products and services within a highly controlled DFSA-led environment.

Applications are open between the 1st and 30th November 2018 and firms will need to provide a detailed business model as well as the proposed innovation.

1.3 Dear SEO Letter Requires Action Regarding Updated Terrorist List

The DFSA has released a Dear SEO letter to all Authorised Firms asking them to complete a survey regarding the UAE's updated list of designated terrorist organisations and groups. The "October Resolution" requires immediate checks of all Authorised Firm clients. Full instructions are in the letter and firms are expected to complete the survey by the 11th November 2018.

The additional list to the names are:

1. Mohammad Ebrahim Owhadi (also known as Jalal Vahedi)
2. Esma'il Razavi
3. Abdullah Samad Faroqui
4. Mohammad Daoud Muzzamil
5. Abdul Rahim Manan
6. Mohammad Naeem Barashi
7. Abdul Aziz (also known as Aziz Shah Zamani)
8. Sadr Ibrahim
9. Hafiz Abdul Majid

1.4 Dear SEO Letter Sent to DNFBPs

The DFSA has issued a letter to all Designated Non-Financial Businesses and Professions (DNFBPs) and their Money Laundering Reporting Officers (MLROs) to highlight the changes made recently to the AML Rulebook and DNFBP Supervision Regulations resulting from the DFSA Consultation Paper No.118 and No.120.

While all DNFBP firms should read the Consultation Papers and the [Dear SEO letter](#), it should be highlighted that the new AML rules stipulate:

- a change in definition of a DNFBP which may affect some firms who will no longer fall under the AML regime
- requirements by all DNFBPs in the DIFC to certify certain criteria in writing to the DFSA.
- all registered DNFBPs are required to use an electronic form to notify the DFSA of any relevant changes
- the Annual Information Return for DNFBPs which is due on 31st January will be converted to an electronic format.

Further information

If you have any questions or concerns regarding these DFSA and DIFC developments and requirements, please contact Clare Curtis (CCurtis@cclcompliance.com)

2.0 ADGM AND FSRA LATEST DEVELOPMENTS

2.1 ADGM Joins the WAIFC

The World Alliance of International Financial Centres (WAIFC) Association has been formed, with the Abu Dhabi Global Market (ADGM) being one of the founding financial centre members.

The WAIFC is an association made up of eleven members:

- Abu Dhabi Global Market
- Astana International Financial Centre Authority
- Belgian Finance Club
- Busan International Financial City Promotion Center, BEPA
- Casablanca Finance City Authority
- Frankfurt Main Finance
- Luxembourg for Finance
- Moscow: Analytical Centre Forum
- Oman: The Capital Market Authority
- Paris EUROPLACE
- Toronto Finance International

WAIFC seeks to become a forum for the exchange of knowledge, best practices and innovative ideas that will stimulate the development of each of their own respective financial centres while opening communication between other authorities across the world.

The main areas of concentration include FinTech, financial centre data and “Green investment and infrastructure”.

2.2 ADGM Sign MoU and MoC

The ADGM has signed a Memorandum of Cooperation (MoC) with The Department of Culture and Tourism, Abu Dhabi (DCT Abu Dhabi) aimed at boosting communication and growth between both entities and their wider jurisdictions. The agreement will focus on advancing cooperation and knowledge between both entities and attracting investors and visitors, boosting the ADGM and subsequently the UAE’s tourism and cultural attraction.

The ADGM has signed a Memorandum of Understanding (MoU) with the IDB in order to grow the UAE’s industrial sector and diversify the economy of Abu Dhabi and the UAE, with both entities opening communication paths and exchanging information, so that both entities can invest into a specialist industrial project platform.

Further information

If you have any questions or concerns regarding ADGM and FSRA developments and requirements, please contact Clare Curtis (CCurtis@cclcompliance.com)

3.0 INTERNATIONAL NEWS

3.1 UK to Introduce National Economic Crime Centre

The United Kingdom’s government will introduce a new Crime Centre specifically for economic crime, concentrating on tackling fraud, money laundering and corruption. The new Centre will be based within the National Crime Agency (NCA) and will work with the NCA and Serious Fraud Office (SFO) to investigate economic crime and improve knowledge and expertise.

3.2 ESMA Renews Restriction on CFDs for Further Three Months

The European Securities and Markets Authority (ESMA) has renewed the limitations and restrictions around marketing, distributing and sale of contracts for difference (CFDs) to retail clients from 1st November 2018 until 31st January 2019.

The renewal of the restriction comes after increasing concern for CFD offered investor protection.

3.3 FATF October Plenary Meeting

The Financial Action Task Force (FATF) met for its October meeting in their plenary year, discussing topics depending on the current focus of work.

Several topics were discussed including:

1. FATF members agreeing to strengthen FATF governance and accountability. This will be carried out by increased exposure and engagement of ministers and senior officials.
2. FATF member expansion: Saudi Arabia is currently fulfilling the necessary requirements to be granted membership and FATF and the Saudi Government have put together a mutually agreed timeframe and action plan.
3. Combating the Financing of Terrorism was a continued major topic, with a discussion on how, since their last report in 2015, terrorist financing has evolved, and updates were provided of the largest terrorism threats globally and their behaviour.
4. FATF has adopted amendments to the FATF Recommendations to encompass the increasing use of virtual assets for money laundering and terrorist financing. Exchanges and wallet providers are now required to be licensed/registered and supervised by a national authority and need to implement anti-money laundering and counter terrorist financing systems and controls.
5. Two Risk-Based Approach Guidance papers on the Life Insurance Sector and the Securities Sector. These papers have been published and are available through the FATF website – Firms in the [life insurance](#) or [securities](#) sector are encouraged to read the relevant paper which highlights risks depending on the products and services involve and what firms should put in place to mitigate vulnerabilities.
6. FATF has put a focus on developing guidance on digital identity, which will focus on reliability and features of digital IDs and their use in the financial sector.

3.4 FATF Add Bahamas, Botswana and Ghana to its Grey List

Three more countries have been added to FATF’s Grey List- the list of jurisdictions with strategic deficiencies. Currently the Grey and Black Lists include:

Jurisdiction with strategic deficiencies (Grey List)	Jurisdiction subject to a FATF call on its members and other jurisdictions to apply counter-measures (Black List)	Jurisdictions subject to a FATF call on its members and other jurisdictions to apply enhanced due diligence measures (Black List)
The Bahamas	Democratic People's Republic of Korea (DPRK)	Iran
Botswana		

Ethiopia		
Ghana		
Pakistan		
Serbia		
Sri Lanka		
Syria		
Trinidad and Tobago		
Tunisia		
Yemen		

Further information

If you have any questions or concerns regarding any International developments, please contact Clare Curtis (CCurtis@cclcompliance.com)

4.0 ENFORCEMENT ACTION

4.1 FCA Fine Liberty Mutual Insurance Europe SE £5.2 Million for Compliance Failures

Liberty Mutual Insurance Europe SE has been fined by the UK regulator, the Financial Conduct Authority (FCA) for failing to adequately oversee its third party claims and complaints procedures.

The insurer had outsourced many administrative functions in order to sufficiently target mobile phone insurance to retail customers, however this third party was not overseen adequately enough, and many claims and complaints were not handled fairly.

This fine was made public only after the FCA published a thematic review setting out regulatory expectations for the mobile phone insurance market. The FCA’s original fine of £7,544,000 was discounted to £5,280,800.

4.2 ADCB Fined £25,000 for Authorisation Failures

Abu Dhabi Commercial Bank (ADCB) has been fined £25,000 by Jersey Financial Services Commission for transferring a deceased man’s funds without the correct system and controls within its authorisation procedures. The bank notified the regulator once the mistake was discovered. The fine was considered marginal due to the fact that it was not a case of fraud but a mistake within the bank’s procedures.

4.3 Tesco Bank Fined £16.4 Million by FCA

The FCA has fined Tesco Personal Finance plc GB 16.4 million for its failures in conducting “due skill, care and diligence” in protecting customers from a cyber-attack in November 2016.

Cyber attackers were able to manipulate a design flaw in the banks debit cards which led to thousands of unauthorised transactions. The regulator found the bank’s cyber-security procedures were appropriate but not being applied in practice.

Cyber security has become an increasingly hot topic by financial regulators globally, with firms now expected to implement strong systems and controls to protect the Firm and its Customers from cyber-attacks.

Further information

If you have any questions or concerns regarding enforcement action, please contact Clare Curtis (CCurtis@cclcompliance.com)

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, Abu Dhabi 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 Services & Support

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Training

- Governance, Risk & Compliance
- AML & Financial Crime Prevention
- 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 us 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.