

# Regulatory Update

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## 1. DIFC AND DFSA LATEST DEVELOPMENTS

### 1.1 DIFC Inaugural Hedge Fund Event

On 9 January, the Dubai International Finance Centre ('DIFC') announced a collaboration with HFM, the hedge fund arm of the global data intelligence firm known as 'With Intelligence' to launch the region's first hedge fund event on 15 May.

The event will focus on the hedge fund sector and will include insightful, market-relevant content, interactive round tables and integrated networking activities in the areas of:

- markets and regulations
- talent and culture
- Artificial intelligence ('AI') and digital assets
- investors preferences
- modelling
- uses of new technology.

This event is by invitation only.

You can read the DIFC article [here](#).

### 1.2 DIFC Signs Agreement with Guernsey Finance

On 15 January, the DIFC signed an agreement with Guernsey Finance Centre for the mutual benefit of the centres. More than 20 per cent of the UK FTSE 100 have captives domiciled in Guernsey. In addition to UK companies, several firms in Europe, USA, Middle East, Asia, South Africa, Australia, and the Caribbean have also established captives in Guernsey.

The joint industry and government initiative will promote both financial centres and foster growth and innovation. In addition, the agreement will support investment inflows between the jurisdictions whilst protecting investors.

You can read the DIFC article [here](#).

### 1.3 DIFC Innovation Hub Partners with Julius Bear & Euroclear for Digital Assets Inheritance & Estate Planning

On 23 January, the DIFC Innovation Hub announced its partnership with 'Julius Baer' and 'Euroclear' with the aim of addressing wealth management challenges in digital asset transfers for the next generation. The partnership will welcome innovators, investors, and subject matter experts from across the wealth management value chain to explore how families can best use technology to manage rapidly expanding portfolios of tokenised and digital assets.

DIFC's Innovation Hub experts will work closely with Julius Baer's global innovation team and Euroclear's innovation centre of excellence for a three-month sprint that will result in a white paper detailing a future-oriented solution for succession planning related tokenisation applied to multi-generational inheritance.

The partnership will help regional family owners' business, high net worth and ultra-high net worth individuals find effective solutions to transferring their wealth.

You can read the DIFC article [here](#).

## 1.4 DFSA Issue Several Consultation Notices

The DIFC's Dubai Financial Services Authority ('DFSA') issues Consultation Papers ('CP') on updates to its rules, laws, or guidelines to seek practical insight from experts and concerned professionals on the application of the changes. As such, the DFSA released two CPs in January 2024.

On 3 January, the DFSA released 'CP No.154 - Proposed Changes to the DFSA's Audit Regime'. DFSA key proposals cover:

- the requirement for an auditor to be a 'Registered Auditor ('RA')' in order to conduct a 'substantial role' in an audit
- the requirement to appoint a Senior Officer for the day-to-day management, supervision, and control of the RA
- enhancing the audit regime with the Senior Officer's requirement to meet fitness and propriety tests and fulfil requirements for their role and responsibilities
- to introduce fundamental RA and audit principles
- to require RAs who carry out audits of the financial statements of a Public Listed Company ('PLC') to publish an annual transparency report
- various miscellaneous updates with regards to; underlying international standards, having a continuous professional development framework in place for all employees of an RA, ensuring consistency with other DFSA Rules and clarifying requirements in the appendices for certain reports.

Comments are welcome until 1 March. You can read the CP [here](#) and submit your comments [here](#).

On 4 January, the DFSA released 'CP No.153 - Updates on the Regulation of Crypto Tokens'. DFSA key proposal covers:

- Crypto Token Recognition:
  - o reduction of the current application fee for Crypto Token recognition from US\$10,000 to US\$5,000
  - o amendment of the recognition criteria for a Fiat Crypto Token.
  - o amendment to the definition of 'Fiat Crypto Token' to remove the reference to a combination of fiat currencies.
- Collective Investment Funds:
  - o allow external funds to invest up to 10% of their GAV in Crypto Tokens provided certain conditions are met
  - o allow foreign funds with investments of up to 10% of GAV in Crypto Tokens to be offered in the DIFC, provided certain conditions are met
  - o introduce additional requirements for Authorised Firms offering units of foreign funds that invest in Crypto Tokens
  - o allow certain domestic funds to invest in unrecognised Crypto Tokens, provided the investment does not exceed 10% of GAV and the fund is a QIF so its units are only offered to professional clients via private placement at a minimum subscription of USD 500,000.
- Custody of Crypto Tokens, with DFSA proposals in the areas of private key and digital wallets, segregation, unauthorised or incorrectly executed transfers, third party agents, records, reconciliations, and Safe Custody Auditors Report.
- Financial Crime/AML; covering the 'Travel Rule' commonly used to refer to FATF Recommendation 16, transaction monitoring.
- Decentralised Finance DFSA proposal in relation to staking.

Other discussion points set out in the CP cover proprietary trading involving Crypto and Crypto tokens in Insurance Business.

Comments are welcome until 4 March. You can read the CP [here](#) and submit your comments [here](#).

## 1.5 DFSA Celebrates Record Number of Licences

On 24 January, the DFSA celebrated stable growth with 2023 being a record year for issuance of licences. The regulator noted remarkable growth in asset managers and hedge fund managers in the centre in addition to the second largest Sukuk market globally on the NASDAQ. The regulator acknowledged the benefits of strengthened ties through multiple Memorandums of Understanding (MoU) with entities such as the Financial Intelligence Unit ('FIU'), the Hong Kong Monetary Authority ('HKMA') and numerous climate initiatives following COP28.

You can read the DFSA article in full [here](#).

### Further information

If you have any questions or concerns regarding these DIFC and DFSA developments and requirements, please contact [Nigel Pasea](#).

## 2. ADGM AND FSRA LATEST DEVELOPMENTS

### 2.1 FSRA Issues Several Circulars

The Abu Dhabi Global Market ('ADGM') Financial Services Regulatory Authority ('FSRA') issues pertinent circulars advising the ADGM community of regulatory changes, notices, and other matters of interest.

On 2 January, FSRA issued 'Dear Senior Executive Officers ('SEO'), Money Laundering Reporting Officers ('MLRO') and Principal Representatives ('PR') of Relevant Persons: Update on Terrorist and Proliferation Financing Red Flags Guidance'. The Publication includes an update to the previous edition of 'Terrorist & Proliferation Financing Red Flags' in addition to a specific section on Virtual Assets Service Providers ('VASP'). The publication provides measures authorised firms can adopt to effectively recognise uncommon or suspicious transactions/activities in line with their obligations pursuant to Cabinet Resolution No. (74) of 2020 and Federal Decree-law No. (20) of 2018.

Some of the red flags related to terrorist financing in the UAE and other regional countries:

- funds sent or received via international transfers from or to higher-risk locations
- foreign exchange transactions performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to higher-risk countries
- multiple personal and business accounts or the accounts of non-profit organisations or charities being used to collect and funnel funds to a small number of foreign beneficiaries, particularly in higher-risk locations.

Some of the red flags in a broader terrorist financing context include:

- funds transfers that do not include information on the originator, or the person on whose behalf the transaction is conducted when the inclusion of such information would be expected
- funds generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by national authorities and Financial Action Task Force ('FATF') as non-cooperative countries and territories).
- transactions involving certain high-risk jurisdictions such as locations in the midst of or in proximity to, armed conflict where terrorist groups operate or locations, which are subject to weaker Money Laundering ('ML')/ Terrorist Financing ('TF') controls.

Some of the red flags related to proliferation financing in the UAE and other regional countries include:

- the use of shell companies through which funds can be moved locally and internationally by misappropriating the commercial sector in the United Arab Emirates ('UAE')
- Dealings with dual-use or controlled goods.

Some of the red flags in a broader terrorist financing context includes:

- customer profile risk indicators including, but not limited to:
  - o reluctance to provide additional information about their activities when queried
  - o customer is a person connected with a country of proliferation or diversion concern as identified through the national risk assessment process or by relevant national counter proliferation financing authorities.
- Accounts and transactions activity risk indicators including, but not limited to:
  - o a transaction involving a person or entity in foreign country of proliferation concern
  - o a transaction involving a person or entity in foreign country of diversion concern.
- Maritime sector risk indicators including, but not limited to:
- An order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user:
  - o the destination of a shipment is different from the importer's location.
- Trade finance risk indicator including, but not limited to:
  - o prior to account approval where the customer requests a letter of credit for a trade transaction to ship dual use goods or goods subject to export control
  - o lack of full information or inconsistencies identified in trade documents and financial flows, such as names, companies, addresses, final destination, etc.

You can read the Dear SEO letter [here](#) and the publication [here](#).

Also released on 2 January, the ADGM issued 'Dear SEO, MLRO and PR of Relevant Persons relating to the EOCN publication on "Guidance on Proliferation Finance Institutional Risk Assessment'. These guidelines are relevant to all Financial Institutions ('FI'), Virtual Asset Service Providers ('VASP'), Designated Non-Financial Businesses and Professions ('DNFBP') and aim to identify, assess, understand, and mitigate the firm's risks in line with the FATF standards. The new guidelines should be read as an addendum to the existing Guidance on Counter Proliferation Financing.

The guidelines provide updates on:

- Proliferation financing regarding:
  - o inherent risks

- control effectiveness
- residual risks
- risk categories and factors
- mitigating measures
- onboarding, Know Your Client ('KYC') and Customer Due Diligence ('CDD')
- screening, sanctions, and adverse media
- ongoing monitoring and transaction monitoring
- suspicious activity reports
- employee screening
- employee training
- risk scoring
- and updates case studies.

You can read the ADGM article [here](#) and the new guidelines [here](#).

On 22 January, the FSRA issued 'Dear SEO, MLRO, LP: Regarding Revision and automation of the annual AML Return Form'. The AML Return form has been revised to consider changes in local and international standards.

Notable revisions include:

- additional questions to capture details on relevant persons and representative offices' AML – TFS monitoring framework and sanctions measures
- a mandatory submission of the AML form through the FSRA Connect Platform; historically submissions may have been accepted in hard copy or through other informal mediums
- two separate AML returns have been allocated for each of the Financial Institutions ('FI'), DNFBs and representative offices.

Firms who have already submitted the AML return must resubmit their returns through the FSRA Connect platform.

You can read the letter [here](#) and log in to FSRA Connect to view the updated form [here](#).

## 2.2 FSRA Releases Guidance on Unlicensed VASPs

On 5 January, the FSRA released 'Joint guidance on Combating the use of Unlicensed VASPs in the UAE'. The guidance aligns with the FATF publication on a risk-based approach for VASPs with a focus on the use and treatment of unlicensed virtual asset providers.

The guidelines cover:

- market participant expectations
- risk indicators
- suspicious transaction reports
- civil and criminal penalties.

You can read the guideline [here](#).

### Further information

If you have any questions or concerns regarding these ADGM and FSRA developments and requirements, please contact [Shadi Dajani](#).

## 3. MIDDLE EAST REGULATORY UPDATES

### 3.1 FIU Host AML Meeting with UK

From 15 - 18 January, the UAE Financial Intelligence Unit ('FIU') hosted the inaugural meeting of the UAE - UK combined AML operational team. The partnership is dedicated to sharing expertise and improving joint practices to counter financial crime, showcasing a strong commitment to jointly address illicit financial flows. The delegation also discussed the possibility of a cross-jurisdictional public-private partnership information exchange.

You can read the FIU article [here](#).

### 3.2 MOE meets British Representatives to explore FinTech opportunities

On 25 January, the UAE's Ministry of Economy ('MoE') met with Investopia London to create new investment opportunities between the two countries focussing on FinTech solutions. The UAE representatives will participate in Investopia Global Talks on the topic of 'UAE-British Financial Services: Partnership for the Future'. In addition, the MoE representatives will participate in several bilateral meetings with the expectation of signing multiple MoU's to benefit the economies mutually.

You can read the MoE article [here](#).

### 3.3 SAMA Consults on General Rules for Saving Products Offered by Banks

On 10 January, the Saudi Central Bank ('SAMA') sought consultation via its Public Consultation Platform known as 'Istitlaa' on the draft "General Rules for Savings Products Offered by Banks". The General Rules seek to establish a framework for banks to offer innovative saving products to assist in incentivising clients' financial planning.

The consultation closed on 25 January.

You can read the SAMA article [here](#) and the consultation paper [here](#).

#### Further information

For any questions or concerns regarding these updates, please contact [Mohsin Ismail](#).

## 4. INTERNATIONAL UPDATES

### 4.1 FATF Updates Consolidated Ratings

On 23 January, the FATF published an updated consolidated ratings table. The table summarises jurisdictions' progress against the 40 FATF Recommendations. The recommendations assess the jurisdiction's maturity against AML, CTF and PF measures.

You can read the table in full [here](#).



## 4.2 UN Updates Sanctions List

The UN Security Committee updated entries on several sanction lists in light of the global political landscape. As a member of the UN, the UAE is committed to implementing the resolutions, and all firms must report on their involvement with sanctioned entities.

On 5 January, the Security Council 1718 reported on two amendments to entries on the sanction list, namely:

- the General Bureau of Atomic Energy
- Academy of National Defense Science.

On the same date, the Security Council ISIL (Da-esh) and Al-Qaida Sanctions Committee reported on seven amendments to entries in the sanctions list, namely:

- Habib Ben Ahmed Al-Loubiri
- Hafiz Muhammad Saeed
- Hafiz Abdul Salam Bhuttavi
- Maulana Fazlullah
- Noor Wali Mehsud
- Al Rashid Trust
- Khatiba Imam Al-Bukhari.

Further details can be found for the updates to Security Council 1718 [here](#) and Security Council ISIL and Al-Qaida [here](#).

On 10 January, the Security Council ISIL (Da'esh) and Al-Qaida reported on 14 amendments to entries on the sanction list, namely:

- Khalid Abd Al-Rhman Hamd Al-Fawaz
- Saifi Ammari
- Kamel Djermane
- Salah Eddine Gasmı
- Adem Yilmaz
- Mohamed Belkalem
- Tayeb Nail
- Abd Al-Rahman Ould Muhammad Al-Husayn
- Said Arif
- Ahmed Abdullah Saleh Al-Khazmari
- 'Abd Al-Rahman Muhammad Mustafa Al-Qaduli
- Mohamad Rafi Bin Udin
- Benevolence International Foundation
- Al Furqan.

Further details can be found [here](#).

### Further information

For any questions or concerns regarding these updates, please contact [Mohsin Ismail](#).

## 5. ENFORCEMENT ACTIONS

### 5.1 DFSA Issues Status Notice for Several Companies

The DFSA clarified the regulatory status of four entities proclaiming to be DFSA-regulated entities.

The following companies are not licenced to provide financial services or make financial promotions in or from the DIFC:

- Seven Capitals Foreign Brokerage Limited, a company based in Mauritius
- Seven Capitals Foreign Brokerage Limited – Dubai Branch – REP. Office
- Seven Capitals Foreign Brokerage, a company based in Dubai
- Seven Capitals Trading L.L.C a company based in Dubai.

The DFSA confirms that Seven Capitals Limited (DIFC Registration Number 5886) is a company that was incorporated in the DIFC and is permitted to provide financial services in or from the DIFC and warns the public of potential scams.

You can read the DFSA alert [here](#).

## 5.2 ADGM Issues Multiple Fines for Failing to Comply with CRS

The ADGM has fined multiple entities for failing to comply with Common Reporting Standards ('CRS'). Reporting Financial Institutions ('RFI') are required to report under the Common Reporting Standard Regulations 2017 and Cabinet Resolution No. 93 of 2021.

The entities fined include:

- Sarwa Digital Wealth (Capital) Limited AED50,000 for failure to apply due diligence for self-assessments and report Tax Identification Numbers ('TIN') for reportable accounts. The notice can be found [here](#).
- Access Bridge Ventures Fund LP AED35,000 for failure to maintain and evidence due diligence on self-assessments. The notice can be found [here](#).
- Aarna Capital Limited AED60,000 for failure to apply due diligence to self-assessments, failure to treat reportable accounts as reportable, document due diligence and collect TINs for reportable accounts. The notice can be found [here](#).
- Anamcara Fund I. L.P AED5,000 for failure to report. The notice can be found [here](#).
- AGRINV SPV RSC Limited AED10,000 for failure to report. The notice can be read [here](#).

## 5.3 CBUAE Cancels Licence of Insurance Broker, First Insurance

On 12 January, the CBUAE cancelled the license of First Insurance Broker Company ('First Insurance'). The CBUAE found First Insurance non-compliant with "Board of Directors Resolution No.15 of 2013 Concerning Insurance Brokerage Regulations" on the term and renewal of the licence.

You can read the WAM article [here](#).

## 5.4 CBUAE Fines Insurance Company

On 30 January, the CBUAE fined an unnamed insurance broker AED1.2M for AML and CTF failings. The insurance company was found to have weaknesses in its policies and procedures.

You can read the Zawya article [here](#).

## 5.5 Bank of England Issues GBP57M to Retail Bank, HSBC

On 30 January, HSBC was issued with a GBP57.4M fine for “serious failings” over its measures to protect customer deposits. The failings occurred at HSBC Bank plc between 2015 and 2022, and at HSBC UK Bank plc between 2018 and 2021, the PRA said. The PRA reduced HSBC's fine to GBP57M from GBP96.5M pounds in return for the bank's co-operation with the investigation. The bank failed to mark 99% of its eligible beneficial deposits as “ineligible” for the Financial Services Compensation Scheme (‘FSCS’) contrary to the depositor protection rules. The bank was also found to have provided incorrect evidence that its system satisfied the requirements of the deposit protection rules. In addition, the bank failed to be duly open and cooperative with the Bank’s Prudential Regulation Authority (‘PRA’).

You can read the BBC article [here](#).

### Further information

For any questions or concerns regarding these updates, please contact [Mohsin Ismail](#).

## ABOUT WAYSTONE COMPLIANCE SOLUTIONS

Waystone Compliance Solutions offers a new and unique approach to compliance services at a corporate level.

As a truly global partner, we have the capabilities to help you manage regulatory risk right across your organisation.

We can provide key services from initial registration and licensing to compliance programme integration. Our compliance solutions span business strategies, market activities, and operational and technology infrastructure, not to mention sales and marketing procedures. And we can do so anywhere in the world.

Our aim at Waystone is simple: to enable our clients to navigate the complex regulatory environment with confidence.

At Waystone, we have brought together the experience, the expertise, and the global reach to give you the certainty you need to address the ever-changing regulatory world. And by doing so, provide you with a secure route on the road to success.

<https://compliance.waystone.com/>

### Consultancy Services & Support

- Compliance Advisory
  - o The Virtual Compliance Clinic
  - o Assurance Reviews
  - o Compliance Remediation
  - o Data Protection
  - o Financial Crime Prevention
  - o Corporate Governance
  - o Risk Management
  - o Prudential Rules & Regulatory Reporting
- Authorisation
- Outsourcing (Compliance Officer, MLRO, Finance Officer and Data Protection Officer)
- Documentation
- Training

If you wish to discuss how Waystone can assist you with any of the issues raised in this regulatory update, please contact us 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 therein.