

SM/07/345

November 5, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Dubai International Financial Centre—Publication of Financial Sector Assessment Program—Detailed Assessment of Observance of IOSCO Objectives and Principles of Securities Regulation**

Attached for **information** of the Executive Directors is the staff's detailed assessment of observance of IOSCO objectives and principles of securities regulation for the Dubai International Financial Centre. This FSAP detailed assessment supplements the Financial System Stability Assessment for the United Arab Emirates, which was circulated as SM/07/279 (8/1/07). Management has consented to a request from the Dubai authorities to publish the assessment, and it will be posted on the Fund's external website after **Monday, November 12, 2007**.

Questions may be referred to Ms. Elliott, MCM (ext. 38804).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

For Restricted Use Only (Not for use by third parties)

FINANCIAL SECTOR ASSESSMENT PROGRAM

**DUBAI INTERNATIONAL
FINANCIAL CENTRE**

**IOSCO OBJECTIVES AND PRINCIPLES OF
SECURITIES REGULATION**

May 2007

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS
DEPARTMENT

THE WORLD BANK
FINANCE AND PRIVATE SECTOR VICE PRESIDENCY
MIDDLE EAST & NORTH AFRICA VICE PRESIDENCY

Contents	Page
Glossary	3
I. IOSCO Objectives and Principles of Securities Regulation.....	4
A. General	4
B. Information and Methodology Used for Assessment.....	4
C. Background	4
D. General Preconditions for Effective Securities Regulation	5
E. Principle-by-Principle Assessment.....	6
F. Comments	7
G. Recommended Actions and Authorities' Response to the Assessment.....	34
Tables	
1. Detailed Assessment of Observance of the IOSCO Objectives and Principles of Securities Regulation	8
2. Summary Implementation of the IOSCO Objectives and Principles of Securities Regulation	34
3. Recommended Plan of Actions to Improve Implementation of the IOSCO Objectives and Principles of Securities Regulation	34

GLOSSARY

AAOFI	Accounting and Auditing Organization for Islamic Financial Institutions
AML	Anti-Money Laundering
CBU	Central Bank of the United Arab Emirates
CPSS-IOSCO	Committee on Payment Systems-International Organization of Securities Commissions
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
DIFCA	Dubai International Financial Center Authority
DIFX	Dubai International Financial Exchange
ESCA	Emirates Securities and Commodities Authority
FATF	Financial Action Task Force
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IFAC	International Financial Audit Committee
IFRS	International Financial Reporting Standards (formerly IAS)
IOSCO	International Organization of Securities Commissions
MCD	Middle East and Central Asia Department
MOU	Memorandum of Understanding
OSR	Offered Securities Rules
OTC	Over-the-Counter
SRO	Self-Regulatory Organization
UK FSA	United Kingdom Financial Services Commission
US GAAP	United States Generally Accepted Accounting Principles
US CFTC	United States Commodity Futures Trading Commission

I. IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

A. General

This assessment was conducted by Jennifer Elliott, Monetary and Capital Markets Department, International Monetary Fund, in January 2007 as part of an IMF-World Bank FSAP update mission to the UAE.

B. Information and Methodology Used for Assessment

The assessment was made using the IOSCO Methodology for Assessment of the IOSCO Principles (2003). The assessment was coordinated with the work of the Basel Core Principles update.

The assessment relied on an extensive self-assessment prepared by the Dubai Financial Services Authority (DFSA) using the IOSCO Methodology, background papers and summaries prepared by the DFSA, background papers provided by the Middle East and Central Asia Department (MCD) of the Fund, and a review of relevant DIFC laws and regulations and DFSA rules. The assessment also benefited from interviews with staff of the DFSA, Dubai International Financial Exchange (DIFX) and regulated entities within the Dubai International Financial Centre (DIFC).

The assessor expresses her gratitude and deep appreciation for the extensive preparation by the DFSA and the willingness of DFSA executives and staff to make themselves available for interviews, which were in all cases very candid and informative.

C. Background

The DIFC is a geographic and legal jurisdiction within in the emirate of Dubai (part of the federation of the United Arab Emirates). In 2004 the UAE constitution was amended to allow an emirate to establish a “financial free zone,” a separate legal, geographic and judicial jurisdiction. Federal Law No. 8 of the UAE allows a free zone to be established by Federal Decree and specifies that banking services cannot be carried out in local currency (Dirham) nor can a DIFC company provide services in the UAE without separate licensing in the UAE. Federal Decree No. 35 in 2004 then established the DIFC, with an accompanying resolution delineating the 110 acre area of Dubai within which the DIFC is located. The President of the DIFC is His Highness Sheikh Mohammed bin Rashid al Maktoum, the ruler of Dubai. He is represented at the DIFC by a governor. All laws are approved by the Ruler of Dubai.

All activity within the DIFC is governed by the laws of the DIFC, with the exception that federal criminal law (including anti-money laundering law) applies within the center. The DIFC has adopted a full set of laws including an insolvency law, trust law, personal property law, and employment law. These have been based largely on UK common law. The DIFC also established a separate court, with both a trial and appeal level, to hear all matters in the DIFC (others than those related to criminal law). The members of the DIFC court are

generally nonresident senior members of the judiciary from the UK and other British common law jurisdictions.

The DFSA is a separate and independent regulatory agency established in 2004 by Dubai Law No. 9 (the Dubai Law). The DFSA is accountable directly to the President of the DIFC. The DFSA has authority over all financial services activities that take place within the geographic DIFC. This includes regulation of banks, insurances companies, asset managers, and investment firms. The DFSA also registers service providers such as lawyers and accountants who provide services to licensed firms. There are currently 104 firms registered with the DFSA. Forty percent of these are branches of banks primarily regulated elsewhere, with the majority subsidiaries of large financial institutions and only a few institutions that operate solely within the DIFC.

Financial services firms in the DIFC are restricted by Federal Law No.8 from taking deposits or making loans in local currency (Dirham). However, there are no such restrictions on securities related activities. Most activity, however, takes place in foreign currency. For example, all clearing and settlement on the DIFX takes place in U.S. dollars.

The Dubai International Financial Center Authority (DIFCA) is a separately constituted agency within the DIFC (also reporting to the President) that is responsible for, among other things, economic development and planning, registry of companies and administration of companies law, and data protection law. The DIFCA Group is also the owner of the Dubai International Financial Exchange (DIFX). The DIFX began operating as an exchange in September 2005; it currently has 9 equity listings (two of which did their original offering on the DIFX). All equities are dual listed on another exchange. There are also 4 listings of sukuk (Shari'a compliant) bonds. In December 2006, Nakheel Development Ltd., a property development subsidiary of Dubai World, listed US\$3.52 billion worth of sukuk bonds on the exchange, making the DIFX the world leader in sukuk bond listings. There are also a number of index linked instruments listed on the exchange. Trading volume on the exchange is very low, particularly for bonds, which tend to be bought and held. The DIFX also hosts a clearing and settlement system, securities depository and registry.

The operation of collective investment schemes is very recent in the DIFC, as a framework law was put in place in April 2006. There are currently 7 fund operators licensed by the DFSA, and 7 private funds domiciled in the DIFC.

The DIFC has also created the Hawkamah Corporate Governance Institute, which is active in promoting corporate governance codes and guidelines in the UAE and throughout the region.

D. General Preconditions for Effective Securities Regulation

IOSCO has identified a number of preconditions to effective securities regulation, including absence of undue barriers to entry and exit from markets and products; appropriate legal, tax and accounting framework within which the securities markets operate, and effective procedures for the resolution of problems in the securities market. These preconditions appear to be in place in the DIFC.

E. Principle-by-Principle Assessment

Principles related to the regulator—The DFSA is an independent regulator with a clear legal mandate to regulate all securities related activity within the DIFC. The DFSA has full authority to license and supervise regulated persons and the authority to make rules, form policy and issue interpretations. It is funded by the Government of Dubai, which has an obligation in law to provide sufficient funding. The DFSA is accountable directly to the President of the DIFC. It must make an annual report, complete with audited financial statements. It is also subject to transparency requirements and requirements for administrative fairness.

Principles related to enforcement and cooperation—The DFSA has authority to inspect and investigate regulated persons. It can require production of documents and records and compel testimony. It has a range of enforcement powers including the power to give direction to regulated persons, to issue stop orders to investment funds, and to halt trading on the DIFX. The DFSA can withdraw or refuse licenses. Enforcement processes are in place and although the center is new, there has been some activity. The DFSA has emphasized international cooperation and information sharing as part of its enforcement and supervision activities. It has signed a number of MOUs and is a signatory to the IOSCO Multilateral MOU.

Principles related to issuers—Issuers making offerings in the DIFC are subject to prospectus and continuous disclosure requirements, including timely and material event disclosure. Shareholder voting rights, take-over bid requirements and reporting requirements for insiders are set out in the law and rules. Firms are subject to international accounting and auditing standards. There has thusfar been no initial public offerings made in the DIFC. Issuers listing on the DIFX are subject to the DIFX listing rules and are required to be subject to a regulatory regime acceptable to the DFSA. The DFSA can object to a listing. Listed companies become reporting entities in the DFSA and are therefore subject to ongoing requirements (disclosure, financial statements etc.).

Principles related to collective investment schemes—The framework for collective investment schemes has only recently been put in place. Fund operators must be licensed by the DFSA and are subject to a comprehensive framework including disclosure obligations, valuation standards, and internal control and risk management requirements. Funds, which can only be distributed to investors with liquid capital of US\$1 million, are in the form of an investment company, limited partnership or trust. Operators of private funds, which have a limited distribution, are subject to fewer requirements but are still licensed and supervised. In addition to other enforcement powers, the DFSA has powers to issue a stop order and wind up a fund.

Principles related to market intermediaries—The DFSA has full power to license and supervise market intermediaries. Intermediaries are subject to capital requirements related to the risks in their particular business and activities. DFSA rules contain a full set of internal

control, risk management and business conduct standards. The licensing and supervision process for intermediaries has been designed to meet international best practice standards.

Principles related to secondary markets and self-regulatory organizations—Exchanges and clearing and settlement systems are subject to licensing requirements in the DIFC. The DIFX licensing process was extensive and supervision of all DIFX functions is ongoing. There is pre-trade and post-trade transparency on the DIFX. There are no transparency rules in place for over-the-counter trading but there does not appear to be an OTC market at this time. There is a full set of market abuse rules and effective market surveillance systems in place.

F. Comments

The DFSA has established a very impressive set of laws, regulations and rules and policies and procedures for regulation. Its staff are well qualified and work to international best practice standards. It has demonstrated a willingness and capacity to vigorously enforce its authority and carry out its regulatory mandate. Because the DIFC and DFSA were established very recently and because activity within the DIFC is still new and somewhat limited, it was difficult to assess in-depth the effect of the new regulatory structure in practice. The DFSA has shown a commitment to bring action against those in violation of the law and its rules and has established robust licensing processes. It has established systems of information sharing and supervisory cooperation necessary to supervise international financial services. Given the limited amount of activity in the center, the DFSA has been very active in its supervision of firms. However, the robustness of the system remains to be tested as activity within the center increases. Similarly, the strength of the DIFC court system and judicial framework for the DFSA's work will be tested as challenges to the law and regulation arise in future. It is noted that the Court recently issued injunctive orders on the application of the DFSA.

Table 1. Detailed Assessment of Observance of the IOSCO Objectives and Principles of Securities Regulation

Principles Relating to the Regulator	
Principle 1.	The responsibilities of the regulator should be clear and objectively stated.
Description	<p>Article 7 of the Dubai Law establishes DFSA as the sole financial services regulator in the DIFC—it is responsible for regulation and supervision of banking, securities and insurance activities. The DFSA’s powers and functions are described in Article 7(8). These include responsibility to propose legislation, make policies relating to regulation of financial services, to carry out licensing, registration and supervision functions, and to impose administrative sanctions for breach of laws and regulations. Greater detail concerning the authority’s mandate, responsibilities and authority is set out in the Regulatory Law, and Markets Law. Additional detail is found in the various laws administered by the DFSA, such as the Collective Investment Law.</p> <p>Article 8 of the Regulatory Law sets out the DFSA’s objectives, which are to:</p> <ul style="list-style-type: none"> • foster and maintain fairness, transparency and efficiency in the DIFC financial services industry; • foster and maintain the financial stability of the DIFC financial services industry, including the reduction of systemic risk; and • 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. <p>The laws, regulations and DFSA rules are all published and available to the public and are found on the DFSA website (www.dfsa.ae).</p> <p>The DFSA has the authority to issue guidance and interpretation to regulated persons and has done so.</p> <p>The DIFC is a unique territory within the UAE. Although it is clear that regulation is the sole purview of the DFSA within the DIFC, it is also clear that a close relationship with other UAE regulators is necessary. As discussed under Principles 10–13, among others, the DFSA has a formal memorandum of understanding with the Emirates Securities and Commodities Authority (ESCA), the Dubai Police and the Dubai Attorney General’s Department. It also has a working relationship with the Central Bank of the UAE (CBU).</p>
Assessment	Fully implemented.
Comments	<p>The DFSA does not share regulatory responsibility with another agency within the DIFC and thus there are no concerns about regulatory gaps or overlaps. Because the DFSA is a unified regulator it can take a similar approach to like products and services, whether these are offered by banks, insurance companies or securities firms.</p> <p>However, given its unique position as a jurisdiction within a jurisdiction, the greater issue is the clarity of the DFSA’s role within the UAE. The DFSA must carefully establish itself as a regulator within the center. The DFSA has been quick to act where entities have claimed to be licensed by the DFSA (or be located in the DIFC). This will be a key issue going forward for the DFSA, one that has been clearly recognized.</p> <p>The lack of a formal memorandum of understanding with the CBU has not been an impediment to regulation or communication between the two bodies to date. However, an MOU is an important step in formal cooperation and could become an issue in the future.</p>

Principle 2.	The regulator should be operationally independent and accountable in the exercise of its functions and powers.
Description	<p>Independence</p> <p>The DFSA was established in 2004 by Dubai Law No. 9 (the Dubai Law). The DFSA is accountable directly to the President of the DIFC. The governing body of the DFSA is a board of directors, all nonexecutive, drawn from around the world. All board members are appointed by the DIFC President to hold office for a specific term and can only be dismissed under narrow circumstances, which are prescribed in law. These are: incapacity, gross negligence or criminal conviction. The board of directors appoints the chief executive of the DFSA, who is also appointed for a specific term. Reasons for dismissal of board members or the chief executive are not required to be published. The DFSA's budget is set by the Board of directors and approved by the President. The Dubai Law specifically provides that the government must provide DFSA sufficient funding to carry out its mandate. The DFSA is not required to consult with or obtain approval from government before adopting policy and enacting rules.</p> <p>The Dubai Law was the end result of events in 2004 that questioned the independence of the DFSA and could have had a serious negative impact on the credibility of regulation within the DIFC. At that time the DFSA was not a clearly separate agency in law and formed part of the Dubai International Financial Centre Authority (DIFCA), which has a larger mandate to foster economic development and administer government policy in the center. A dispute resulted in the dismissal of the Chairman of the DFSA Regulatory Council (precursor to the board of directors) and the DFSA Chief Executive by the DIFCA. This created an impression that the DFSA was not an independent regulator. Members of the Regulatory Council immediately reacted by recommending to the DIFC President, His Highness Sheikh Mohammed, the adoption of a new law that would clearly provide independence and hence the Dubai Law was enacted.</p> <p>After interviews with the chief executive, a board member and staff of the DFSA as well as regulated institutions, the assessor is satisfied that the commitment to independence in the legal framework is also honored in practice and on a day to day operational level.</p> <p>Accountability</p> <p>The DFSA is accountable directly to the President of the DIFC. The Regulatory Law creates a general duty for the DFSA to be fair, transparent and efficient in exercising its powers. The Law allows the President to order an independent review of DFSA operations. The DFSA is required to publish an annual report of its activities. The DFSA board is required to appoint external auditors and the annual report must include annual audited financial statements.</p> <p>The DFSA along with the DIFCA issues an bi-annual report of its activities to the UAE federal government, as required by Federal Law No.8.</p> <p>The DFSA is required to give written reasons for material decisions, for example a revocation of a license. Affected persons have the right to make representations to the DFSA. Major decisions, such as revocation or refusal of a license, can be appealed to the Regulatory Appeals Committee, a committee made up of board members and independent persons. RAC decisions can be appealed, in some circumstances, to the DIFC Court. This appeal right is appropriately limited to decisions that have a major impact on individuals or businesses rather than all administrative decisions of the regulator.</p> <p>Enforcement proceedings are subject to particular processes. Enforcement actions are brought before the Financial Markets Tribunal, a separately constituted tribunal that includes members of the board as well as independent persons. Decisions of the Financial Market Tribunal may be appealed to the</p>

	<p>DIFC Court.</p> <p>Confidentiality</p> <p>The Dubai Law that provides all information obtained, disclosed or collected by the DFSA in the course of performing its functions shall be considered confidential and shall not be disclosed except as provided for in the DIFC laws and regulations.</p>
Assessment	Fully implemented
Principle 3.	The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
Description	<p>The DFSA has broad powers to license, supervise, inspect and investigate all providers of financial services within the DIFC. The DFSA has the authority to set policy, enact rules and issue guidance and interpretation. It can withdraw or impose conditions on a license and bring enforcement action against licensed persons for a breach of law and rules. It can pursue unregulated persons for violations of the law or rules by bringing a civil action in DIFC court.</p> <p>The Dubai Law states that the Government of the Dubai is obliged to provide the DFSA with funding necessary to discharge its power and perform its functions. Budget allocation is made by the DFSA and a budget is provided to the President for approval. In practice, the budget has been approved with only minor amendments. The DFSA appears to be well funded and has been able to offer compensation sufficient to attract high quality staff. Staff receive training, through offsite and onsite means.</p>
Assessment	Fully implemented
Comments	The DFSA has adequate powers, proper resources and the capacity to perform its functions and exercise its powers, as evidenced by the high level of implementation of the Principles below.
Principle 4.	The regulator should adopt clear and consistent regulatory processes.
Description	<p>Policy Formulation</p> <p>The DFSA has an obligation to publish rules for comment within 30 business days (a period that could be lengthened at the DFSA's discretion if stakeholders so requested). Proposed rules are available on the website. The DFSA also makes an effort to target interested persons for consultations. Adopted rules and rule amendments, laws and amendments to legislation are published on the DFSA website. The DFSA website contains all laws, rules, forms and guidance as well as details of enforcement decisions and a registry of licensees and their status.</p> <p>The DFSA is obliged to consider the cost of regulation proportionate to its benefit when developing and adopting rules and policy.</p> <p>Procedural fairness</p> <p>The DFSA has adopted written procedures for most aspects of its regulatory work. It has employed internal processes such as the constitution of senior management committees to make major decisions as a means of providing fair and consistent decisions.</p> <p>Enforcement proceedings are governed by specific procedural rules. All material regulatory decisions and decisions at the conclusion of enforcement proceedings must be made in writing. These decisions are subject to appeal, as described under Principle 2.</p> <p>In general enforcement decisions are published but the DFSA may elect not to publish if publication would have a detrimental effect.</p> <p>Consistency</p>

	<p>An internal committee, the Regulatory Policy Committee, which represents all departments, is constituted to provide guidance to DFSA staff and committees on new legislation, policy statements and practice notes and internal procedural manuals. This is a means of ensuring consistency of policy and application of policy.</p> <p>Investor education</p> <p>The DFSA does not carry out a campaign of investor education per se. It has spent considerable resources educating applicants and potential applicants for licenses in the DIFC. It is also mindful of the risk to its reputation if investors falsely believe a firm is regulated by the DFSA and it has pursued those who have falsely held themselves out as DFSA-regulated. The DFSA also devotes resources to transparency making good use of its website and making public communications as necessary (as in the case of these violations, which were widely publicized.) Given that there is no retail market in the DIFC, the level of investor education activity is reasonable.</p>
Assessment	Fully implemented
Comments	The comment period for rules is quite short and could be lengthened.
Principle 5.	The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.
Description	<p>The Regulatory Law stipulates that all officers, employees and agents of the DFSA must comply with strict conflict of interest requirements, which require them to disclose all material conflicts and refrain from participating in any decisions in matters to which they are subject to a material conflict. The Dubai Law and the Regulatory Law impose obligations of confidentiality. It is a criminal offence under Article 379 of the UAE Penal Code to disclose confidential information without legal authority. Further guidance is given to staff and the financial services industry in the DFSA's Policy Statement on Confidential Regulatory Information. The Data Protection Law and supporting rules provide further protections where information relates to individuals, and provides appropriate exemptions to allow for legitimate regulatory purposes.</p> <p>All DFSA employees are required to abide by the internal DFSA Code of Values and Ethics, and to act with the highest integrity. The DFSA Board has also adopted a similar Code of Values and Ethics for members of the Board, Committees and Tribunals. The Secretary to the Board and General Counsel acts as an internal ethics officer. Any perceived or actual conflicts of interest are to be declared on an ad-hoc basis and a formal filing is required annually. In addition, DFSA employees and Board Members are required to make annual disclosure of relevant financial interests, and also, on an ad hoc basis, gifts and benefits received in the course of their duties. Trading on the DIFX is prohibited. The Secretary to the Board keeps a Register of required declarations and disclosures.</p> <p>Misconduct must be reported to the Secretary to the Board. A breach of conduct may result in disciplinary action including a reprimand, written warning or reassignment of duty or termination of employment.</p>
Assessment	Fully implemented

Principles of Self-Regulation	
Principle 6.	The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, and to the extent appropriate to the size and complexity of the markets.
Description	The DIFX is a self-regulatory organization operating in the DIFC. It is responsible for regulation of its listed companies (ensuring compliance with listing requirements, and continuous disclosure requirements) and for regulation of its members with respect to their market conduct. The DIFX has a contractual relationship with its members and may subject them to disciplinary proceedings. The DIFX is also responsible for AML monitoring, chiefly the reporting of suspicious transaction reporting.
Assessment	Fully implemented
Comments	IOSCO does not prescribe criteria for the appropriate use of SROs; therefore for the purposes of assessment, this Principle is descriptive only and a fully implemented grade is given.
Principle 7.	SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.
Description	The DFSA has in place a thorough licensing and oversight program for the DIFX, including its function as a self-regulatory organization, including its role in market surveillance and as a listing authority. This is discussed in detail under Principle 26.
Assessment	Fully implemented
Comments	See Principles 25 and 26.
Principles for the Enforcement of Securities Regulation	
Principle 8.	The regulator should have comprehensive inspection, investigation and surveillance powers.
Description	<p>The Regulatory Law gives the DFSA authority to inspect a regulated person's business operations, including books and records without prior notice. The DFSA can obtain books and records and make requests for information without a court order, either on a routine or ad hoc basis. In the event of suspected misconduct, the Regulatory Law gives the DFSA the authority to compel testimony from individuals. The Regulatory Law and Markets Law give the DFSA full authority to supervise an exchange.</p> <p>Licensed firms are subject to comprehensive record-keeping requirements. Firms are required to maintain records of client identity and maintain records sufficient to construct a full audit trail of all transactions undertaken by the firm. Records must be retained for 6 years. Exchanges are likewise required to record member identity and to create records sufficient to construct a full audit trail of all transactions. Records must be retained for 6 years. Firms are required to know the natural person beneficial owner of accounts, as set out in DFSA anti-money laundering rules, and this information is available to the DFSA.</p> <p>The DFSA can delegate enforcement powers, as appropriate, including to foreign regulators for the purposes of aiding in an investigation.</p>
Assessment	Fully implemented
Comments	Anti money laundering requirements will be the subject a full assessment of the FATF standards in a separate mission and are thus not considered here.

Principle 9.	The regulator should have comprehensive enforcement powers.
Description	<p>DFSA Powers</p> <p>The Regulatory Law prescribes the enforcement powers of the DFSA. The DFSA has a variety of comprehensive enforcement options it may pursue under the law. The DFSA may:</p> <ul style="list-style-type: none"> • commence administrative or disciplinary proceedings before the Financial Markets Tribunal relating to regulated entities and individuals; • appoint managers, accept and enforce undertakings, impose fines, issue administrative censures; • apply to the DIFC Court for injunctions, freeze orders, compliance and restraining orders and orders for receivers, trustees and compulsory winding up (the DIFC Court has granted the DFSA's only application for an injunction); • initiate civil proceedings to obtain damages against wrongdoers and obtain compensation from them for their victims; • intervene in any civil proceedings where the DFSA considers it is appropriate to meet the DFSA's objectives; and <p>where there may be evidence of criminal activity, refer the matter to the appropriate authorities in the UAE responsible for enforcing the UAE Penal Laws. The DFSA has the ability to levy fines against regulated persons and there is no limit on the amount of fine that can be levied. As with other enforcement actions, a sanction or penalty could be appealed to the DIFC court.</p> <p>The DFSA has a full range of investigative powers, as outlined in Principle 8.</p> <p>The DFSA does not have the authority to bring criminal actions. The DFSA may share confidential information with the criminal authorities in the UAE and has done so with the Dubai Police and Sharjah Police.</p> <p>The DFSA has broad authority to obtain information inside the DIFC and has MOUs with various UAE authorities, although not the CBU, which is the bank supervisor in the UAE.</p> <p>Private actions</p> <p>A private person can bring an action for injunctive relief under the Regulatory Law in the DIFC Court or, if the person has suffered loss or damage, may commence civil proceedings under the Regulatory Law. A person may bring an action in DIFC court for misleading or untrue statements in a prospectus under the Markets Law. Currently the Financial Market Tribunal also has the right to determine a case brought under Markets Law by a private person but this is under review.</p>
Assessment	Fully implemented
Comments	Although the lack of an MOU with the CBU has not impeded investigations, it would be desirable to have such an agreement formally in place.

Principle 10.	The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.
Description	<p>Inspections and Investigations</p> <p>The DFSA has instituted a robust system of inspections. Following a risk-based approach, it reviews the risk profile of firms and assigns an examination schedule according to the level of risk. It also undertakes thematic reviews of all firms. In 2006 it completed 27 onsite reviews and plans 70 in 2007. Issues raised in examinations have been pursued and addressed in a timely fashion by DFSA staff. None of these has, thusfar, resulted in an enforcement action.</p> <p>The DFSA responds to investor complaints, although given the newness of the center and the nature of wholesale activity, there have not been a great number of complaints. The enforcement actions it has undertaken have been the result of complaints. The DFSA has a process in place for investigating complaints, criteria for escalating issues to a full investigation and criteria for proceeding with a full enforcement action. Proceeding to enforcement is discussed at an internal senior committee, which will consider a staff proposal to pursue a particular matter and make a recommendation to the Chief Executive who takes the final decision.</p> <p>Market Surveillance</p> <p>The DIFX market surveillance system is designed to detect market abuse. The DIFX is effectively overseen by the DFSA. Serious incidents are reported to the DFSA for further investigation. The DFSA has full access to all records of the DIFX and its member firms. Since there is very little market activity at present, there has been little outcome of surveillance activity. Licensed firms are required to have systems and controls in place to ensure compliance with market abuse, and other, rules. Firms and the DIFX are subject to record keeping and audit trail requirements, as discussed under Principle 23 and 26 respectively. The implementation of these requirements is the subject of onsite review.</p> <p>Enforcement actions and sanctions</p> <p>Enforcement actions are heard by the Financial Markets Tribunal which can revoke or amend a license, issue a censure, or impose a fine on the regulated entity or person. In addition, the DFSA has the power to revoke or amend a license, impose conditions on a firm, and impose conditions or restrictions on a licensed individual. The DFSA can bring a civil action in the DIFC court for an order or injunction. It has brought a civil action against individuals falsely holding themselves out as regulated by the DFSA, in DIFC court.</p>
Assessment	Fully implemented
Comments	Although the DFSA is relatively new and market activity in the DIFC is still low, the DFSA has demonstrated its effectiveness in pursuing enforcement matters. The amount of enforcement activity has not been inconsiderable, given the time frame. Further, enforcement action has focused on ‘policing the perimeter’ and cooperating in investigations with other authorities. Given its nature as a new and geographically small international center, these will be the most important aspects of enforcement in the DIFC.

Principles for Cooperation in Regulation	
Principle 11.	The regulator should have authority to share both public and nonpublic information with domestic and foreign counterparts.
Description	<p>The Dubai Law grants the DSFA Board the power to enter into binding and nonbinding arrangements including memoranda of understanding and cooperation with similar bodies provided they do not conflict with the treaties to which the UAE is a party. Article 38 of the Regulatory Law specifically empowers the DFSA with the authority to request and disclose confidential information to regulatory authorities, civil and criminal enforcement agencies for the purpose of assisting them in the performance of their regulatory functions. This includes both domestic and foreign authorities. There are no restrictions on the type of information that may be exchanged, except that compelled testimony cannot be disclosed to any law enforcement agency for the purpose of criminal proceedings against the person unless the person consents to the disclosure or the DFSA is required by law or court order to disclose the statement.</p> <p>There is no impediment to sharing information even where the alleged conduct does not constitute misconduct in the DIFC, and this legal position is included in the DFSA Policy Statement on Confidential Regulatory Information. The DFSA can share beneficial ownership information.</p> <p>There is only one domestic counterparty, the Registrar of Companies, who is empowered by the Company Law to disclose confidential information if it assists the DFSA in performing its regulatory functions.</p>
Assessment	Fully implemented
Principle 12.	Regulators should establish information sharing mechanisms that set out when and how they will share both public and nonpublic information with their domestic and foreign counterparts.
Description	<p>The Dubai Law grants the DFSA the right to enter into information sharing agreements with other government authorities, both domestic and foreign.</p> <p>The DFSA has entered into agreements with the Dubai Police, the Emirates Securities and Commodities Authority (ESCA) and other domestic authorities and is negotiating an agreement with the CBU (as mentioned above). The DFSA has entered into MOUs with a number of foreign regulators including the US CFTC, and the UK FSA. It has signed the IOSCO Multilateral MOU which governs information sharing between signatories including the US Securities and Exchange Commission and the Securities and Futures Commission of Hong Kong. The DFSA has and is actively pursuing information sharing arrangements with regulators as cooperation and information sharing with foreign and home country regulators is a key part of its supervisory and enforcement program.</p> <p>The DFSA has actively sought information from other regulators in the course of licensing, supervision and enforcement activities as discussed under the relevant Principles. The DFSA was able to demonstrate that it does, in practice, share information by providing the assessor with a number of recent examples.</p> <p>The DFSA Policy Statement on Confidential Regulatory Information sets out procedures for the use and protection of confidential information. Confidential information, including that provided by other regulators, is stored and retained in a separate evidence room at the DFSA.</p>
Assessment	Fully implemented

Principle 13.	The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.
Description	<p>The Regulatory Law specifically allows that the DFSA may exercise its regulatory powers on behalf of a foreign financial services regulator to assist it in performing its regulatory functions. The DFSA is not required to have an independent interest in the matter.</p> <p>The DFSA can offer assistance to regulators in obtaining all records of transactions including the name of the account holder, person authorized to transact business, the time, price and amount of the transaction and the name of the individual or intermediary handling the transaction. Licensed firms and the DIFX are required to compile this information and make it available to the DFSA. Firms are specifically required to ascertain the true identity of the customer or person on whose behalf the customer is acting. The DFSA has full jurisdiction over matters related to market abuse, issuance and listing of securities, licensing and supervision of intermediaries and exchanges and clearing and settlement systems and would therefore be able to assist a foreign regulator in investigations related to these. It can share information with respect to its regulatory processes.</p> <p>The DFSA can compel documents and take individual statements. A regulated person cannot refuse to produce a document or fail to answer questions. The DFSA cannot share compelled testimony if that testimony were to be used in a criminal action against the individual giving the testimony (the right against self-incrimination).</p> <p>The DFSA can seek an injunction (within one day) from the DIFC Court on behalf of a foreign regulator.</p> <p>The DFSA has demonstrated its ability to offer effective and timely assistance with respect to all of these matters. Although activity in the jurisdiction is limited, it has been active in responding to information sharing requests.</p>
Assessment	Fully implemented
Principles for Issuers	
Principle 14.	There should be full, accurate and timely disclosure of financial results and other information that is material to investors' decisions.
Description	<p>Public offerings in the DIFC and listings on the DIFX are available to retail investors—although these investors could not qualify to open an account within the DIFC. This is currently the only securities-related activity in the DIFC that involves retail investors.</p> <p>Offering disclosure requirements</p> <p>The Markets Law subjects all offering of securities in the DIFC to a prospectus requirement, unless the offering is in an exempt offering. Detailed requirements for the prospectus are set out in the law and these include: financial statements including a statement of assets and liabilities, profit and loss, financial position, business plan and discussion of future prospects. The prospectus must disclose audited financial accounts for the issuer for the previous three years, prepared in accordance with International Financial Reporting Standards (IFRS) or an equivalent standard. The prospectus must also identify the issuer, describe the nature of the securities and rights attached to the securities, and risks involved in investing in the securities. The rules require an issuer to produce and file a supplementary prospectus where there has been a significant change (pertaining to the prospectus or the issuer) or where the original prospectus was inaccurate. The DFSA rules require an issuer to ensure that there is full, true and plain disclosure. The DFSA does not review an offering on its merits.</p> <p>The DFSA can approve an application for a waiver or modification to prospectus requirements in</p>

	<p>circumstances where the information is not available, is insignificant or would be unduly detrimental if disclosed.</p> <p>As of the date of the assessment, there have been no initial public offerings in the DIFC. There are two primary listings on the DIFX but all listings have come from other primary jurisdictions. The listing rules of the DIFX require that a similar level of disclosure be made available to investors. The DFSA requires that listings be accepted only from issuers who satisfy DIFX listing rules. In practice, the issuer is subject to standards equivalent to DFSA rules. Once listed, the issuer becomes subject to DFSA rules for reporting entities.</p> <p>Listings at the DIFX are approved by the Listing Authority, part of the DIFX which is separated from other functions (such as business development). This separation is designed to reduce conflicts of interest in listing and ensure that requirements are enforced. The DFSA has the right to object to a listing once it has been approved by the Listing Authority. In practice the DFSA and the DIFX have a close working relationship and details of listings are shared with the DFSA well in advance of their approval. The DIFX works with the DFSA when it intends to offer new products. The DIFX Listing Authority and its function has been subject to review twice by the DFSA and there have been few concerns raised by those reviews.</p> <p>Public offerings do not have to be listed to trade in the DIFC under the DFSA rules. There does not appear to be an over-the-counter market in public offerings but this has the potential to develop.</p> <p>An exempt offering includes an offering that is made to professional investors, made by a recognized government, an offer connected to a take over or an offering limited by the number of investors, or size (a private placement). Exempt offerings are subject to a more limited set of requirements—namely a short form disclosure document setting out the nature of the instrument and investment interest being purchased as well as basic information about the issuer.</p> <p>Continuous disclosure requirements</p> <p>Issuers are required to report, in a timely manner: price sensitive information, changes to financial information, the governing body or the business of the entity, shareholder voting decisions and insolvency or winding-up. Material events must be disclosed immediately. Annual reports are required to be published not more than 90 days following year end.</p> <p>Detailed guidance on price sensitive information is provided in DFSA rules. Such reporting is done through the DIFX automated system, which disseminates information instantly and is available to the public through the DIFX website.</p> <p>The DFSA can approve an application for waiver of continuous disclosure requirements where such disclosure would be detrimental to the issuer or would disclose sensitive commercial information. The DIFX can approve a waiver from similar listings requirements.</p> <p>Cross border offerings</p> <p>All offerings into the DIFC are subject to equivalent regulatory standards. All of the equity listings on the DIFX have been cross-border listings, with either a primary or secondary listing, including depository receipts, on another exchange.</p> <p>Derivatives</p> <p>There are currently no derivatives markets in the DIFC. The DIFX has indicated its plan to introduce derivatives in the near future and, if so, the DFSA rules may have to be amended to</p>
--	--

	<p>accommodate new product innovation.</p> <p>Islamic products</p> <p>Islamic (or Shari'a compliant) instruments have been identified in the DIFC as an area of future growth. The DIFX has listed sukuk bonds, for example. There are separate provisions in DFSA rules for Islamic finance. The DIFX rules requires a prospectus for an Islamic product to disclose the shari'a board's certification of the product, along with general prospectus requirements. Neither the DFSA nor the DIFX reviews whether the product is Shari'a compliant. The DFSA is in discussions with other regulators regarding the standardization of Islamic products that would make passporting of these products from one regulatory regime to another possible.</p> <p>Liability for disclosure</p> <p>Under the Markets Law an issuer, its directors and auditors must disclose all material information and failure to do so is a violation of the law. The DFSA can bring an enforcement action for such a breach and an investor who has suffered loss or damage as a result of a breach may institute civil proceedings in the DIFC Court. The law also contains general provisions against misrepresentation, which are subject to DFSA enforcement. The DFSA and the DIFX have the power to suspend trading where there is a suspected breach of requirements.</p> <p>DFSA review</p> <p>The DFSA staff review all filings (offering documents, new listings, annual reports etc.) to ensure that they comply with DFSA rules. There are internal processes in place to ensure consistency of application of the rules and to ensure coordination with other aspects of regulation.</p>
Assessment	Fully implemented
Principle 15.	<p>Holders of securities in a company should be treated in a fair and equitable manner.</p>
Description	<p>Shareholder rights</p> <p>The Offered Securities Rules (OSR) in the DFSA rulebook includes a general requirement that issuers ensure the equitable treatment of shareholders and detailed requirements with respect to election of directors, voting on corporate changes that affect the terms and conditions of securities or are fundamental. The rules require timely notice of shareholder meetings and set requirements for proxy voting. Rules for establishing the right to secure registration and transfer of securities and the receipt of dividends or distributions are set out in DIFX rules and in the DIFC Companies Law. Directors are subject to an obligation to act with good faith, honesty, due diligence and care and in the best interests of the issuer, in both the DFSA rules and Company Law. Issuers are required to ensure that all necessary facilities and information are available to shareholders to exercise their rights, including specifically that shareholders must be informed of meetings and the issuer must publish notices and circulars on rights attached to the securities. Proxy forms must be included in meeting notices. Annual reports must be sent to shareholders and tabled at the annual shareholder meeting.</p> <p>Insider transactions</p> <p>"Connected persons" are defined in DFSA rules as officers and directors of the issuer, persons owning 5 percent or more of voting rights (directly or indirectly). This definition includes the holdings of members of the household. Connected persons are required to immediately disclose all interests in transactions to the DFSA and the DIFX. Transaction reports are then disseminated on the DIFX's automated reporting system and the DFSA records insider transaction information. Connected person holdings are published in annual reports. The prospectus must disclose the identity of owners of 5 percent or more of voting rights. Directors and officers holdings must be</p>

	<p>disclosed in the annual report but the identity and holdings of holders of 5 percent or more of voting rights do not have to be disclosed. Interests of insiders must be disclosed to shareholders. Certain transactions with connected persons are subject to majority shareholder vote.</p> <p>Takeover bid rules</p> <p>Takeover bid rules are triggered by ownership, whether direct or jointly and in concert, of 30 percent of voting rights. Bid documents must be circulated to shareholders within 21 days of announcement of a bid and the bid must remain open for 35 days following circulation of the bid document. Both the bidder and target have an obligation to give sufficient information and advice to shareholders to enable them to reach a properly informed decision. The DFSA rules provide detailed requirements for bid documents and target circulars. A bidder must make a fair and appropriate bid to each class of shares and is prohibited from extending benefits to certain shareholders not offered to all. The DFSA handled a large takeover in 2005.</p>
Assessment	Fully implemented

Principle 16.	Accounting and auditing standards should be of a high and internationally acceptable quality.
Description	<p>Financial statements</p> <p>While neither the UAE nor the DIFC has an accounting standards setting body, the DFSA requires issuers to prepare financial statements using International Financial Reporting Standards (IFRS) or a standard acceptable to the DFSA. In practice issuers have used IFRS, and the DFSA has not had to exercise its discretion as to whether an accounting standard was of equivalent standard. Audited financial statements are required in prospectus and listing documents and in annual reports. IAS 1 (part of IFRS) requires that financial statements include a balance sheet, income statement, cash flow statement changes in equity. The DFSA rules require disclosure of a review of operations and results of operations.</p> <p>IAS 1 prescribes presentation of financial statements, ensuring understandable presentation. Issuers using IFRS are required to use it wholly, ensuring consistent application and comparability of accounting periods.</p> <p>Issuers are required to issue interim financial statements in accordance with IFRS or an equivalent but these can be unaudited. Listed companies are not subject to a requirement to prepare interim statements in accordance with international standards, although in practice they have. Listed companies are subject to accounting and auditing standards in the jurisdiction in which they are primarily regulated.</p> <p>Audit standards</p> <p>Neither the UAE nor the DIFC have a standard setting body for audit standards nor do they have an auditor oversight body. Financial statements issued in a prospectus must be audited in accordance with an independent, competent and qualified auditor in accordance with the standards of the International Auditing and Assurance Standards Board (IAASB) or the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), or in accordance with other audit standards acceptable to the DFSA. Issuers listing on the DIFX, with a primary regulator elsewhere, are not subject to prescribed audit standards. However, once listed, these issuers become reporting entities in the DIFC and are then subject to DFSA audit requirements (IAASB or equivalent or AAOIFI).</p> <p>The DFSA rules set out more detailed requirements for registered auditors of authorized firms and markets (including rules governing conflicts of interest and independence).</p> <p>A breach of requirements to use acceptable accounting and auditing standards would be treated as a breach of DFSA rules.</p>
Assessment	Fully implemented.
Comments	DIFX listing rules do not prescribe a specific audit standard. However, once listed an issuer would be subject to DFSA audit requirements and therefore in practice those standards apply at listing. However, for greater clarity, the DIFX could consider amending listing rules to incorporate audit standard requirements.

Principles for Collective Investment Schemes	
Principle 17.	The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.
Description	<p>The Collective Investment Law was adopted in 2006, establishing a regulatory regime for collective investment schemes. Funds are categorized as either domestic or foreign. Foreign funds are those domiciled outside of the DIFC. These can be sold to qualified investors (those with US\$1 million in liquid assets) provided they are regulated in a recognized jurisdiction. The DFSA has established a list of jurisdictions recognized for this purpose and can also consider other jurisdictions on a case by case basis. Sales of foreign funds are subject to marketing rules set out in the DFSA's conduct of business rules for authorized firms.</p> <p>Domestic funds can be either private funds or public funds, both sold only to qualified investors. Private funds are those sold to 100 investors or less. Private funds are subject to fewer requirements and require only a short-form prospectus. There are no retail funds per se but the regulatory regime applicable to public funds is in most ways a retail regime.</p> <p>Licensing requirements</p> <p>The operator of a domestic fund (private or public) must be licensed by the DFSA. The operator must meet detailed licensing requirements: the operator must show fitness and propriety to hold a license, must have experienced and qualified staff, an acceptable business plan, an appropriate regulatory history, sufficient resources relating to capital, systems, personnel, risk management and internal controls. Individuals who carry out certain defined functions (directors and senior officers) in the fund must be individually licensed. Fund operators are classified as "category 3" licensed firms by the DFSA and therefore must have an initial minimum capital of US\$500,000 and are subject to ongoing prudential standards and oversight. The operator has a general obligation to act in the best interests of the unit holder and exercise care and diligence. Obligations of the operator and senior management of the operator are set out in DFSA rules, including the obligation to establish clear reporting lines, maintain adequate risk management systems, undertake regular reviews of systems and controls, maintain adequate policies and procedures for the management of risk, make adequate arrangements for compliance and internal audit and have processes in place to ensure that the governing body and management receive necessary information.</p> <p>The operator must have suitable linked entities and must deal cooperatively with the DFSA. Operators may delegate administrative and custodial functions but in practice the DFSA has agreed that certain core functions related to domestic funds could not be delegated to firms outside the DFSA including issuing and redeeming units, record keeping and maintenance of the registry of unit holders and valuation. Rules for delegation of functions are set out in DFSA rules and delegations must be approved by the DFSA. Operators and trustees remain responsible for the proper conduct of the delegated activity. All service providers and terms of delegation must be set out in the prospectus. Delegation relationships cannot be terminated without DFSA consent.</p> <p>Custodians and providers of administrative services to funds must also be licensed by the DFSA where they are located in the DIFC. Otherwise they must be subject to equivalent regulation. The Collective Investment Law requires the operator to keep adequate records. Although this function may be delegated to a trustee or administrator, the function must be maintained within the DIFC (thus the administrator or trustee would also have to be licensed by the DFSA).</p> <p>The DFSA has in place an experienced staff team who review applications in detail, including discussions with staff of regulators in jurisdictions in which the operator is also licensed. There are currently no public funds operating in the DFSA and only a few private funds (in this case, hedge</p>

	<p>funds).</p> <p>Conflicts of interest</p> <p>The Collective Investments Law creates a duty for operators to act in the best interest of unit holders. The DFSA is currently incorporating further specific conflicts of interest rules into its Rulebook including rules regarding best execution of trades, timeliness and allocation of trades, churning of accounts and underwriting arrangements. There are specific rules governing transactions with persons related to the operator.</p> <p>Ongoing monitoring</p> <p>Fund operators must operate funds in accordance with the constitution of the fund and the fund prospectus. Fund operators are subject to ongoing disclosure requirements, as set out under Principle 19. These are monitored by the DFSA. The DFSA also carries out on-site inspections, review of external audit reports and communicates regularly with funds and their lead regulators. The DFSA can respond to customer complaints with inquiries or ad hoc inspections of operators. The DFSA has carried out on-site reviews already, even though the number of funds in the jurisdiction is still small and activity has been recent.</p> <p>Fund operators are required to give the DFSA reasonable notice of changes in firm name, address, legal structure or information with respect to a licensed individual. Fund operators must give immediate notice of more serious changes including breach of rules, events which may have an adverse impact on the operator's reputation, a proposed reorganization or restructuring, a systems failure, or an action that would result in a material change in capital adequacy or solvency.</p> <p>Authority</p> <p>The DFSA is responsible for licensing and ongoing monitoring of domestic funds, as well as the marketing of foreign funds. It has the authority to inspect or investigate the operator of a fund, the custodian of a fund or the administrator of a fund as well as an authorized firm marketing a fund.</p> <p>A breach of licensing or marketing requirements would be a breach of the law and DFSA rules. The DFSA can address operation of an unlicensed funds by bringing a civil action against the unauthorized firm in a DIFC court. In addition to its other enforcement powers, the DFSA has a broad power under the Collective Investment Law to direct a fund to stop marketing and distribution of units. The DFSA can also take specific action against directors and officers or trustees of the fund, including the ability to remove their individual licenses.</p>
Assessment	Broadly implemented
Comments	<p>In general, the regulatory framework for disclosure by collective investment schemes appears to be complete, particularly since the framework does not currently allow retail funds to operate in the DIFC. However, given the short time in which investment funds have been operating and the lack of experience with public funds, in particular, it is difficult to judge the effectiveness of the framework in practice. More detailed rules regarding conflicts of interest are in process, although the IOSCO Principles would not necessarily require these for wholesale funds.</p>

Principle 18.	The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
Description	<p>Legal form and investors' rights</p> <p>Funds can be established as companies, under the DIFC Companies Law and Investment Companies regulation, limited partnerships, under DIFC Limited Partnership Law, or investment trusts, under DIFC Investment Trust Law. Currently there are only private funds in the DIFC and these have generally taken the form of limited partnerships. Under these legal structures, the interests of investors are clearly separated from those of the unit holder. The law governing each structure gives the unit holder rights and limits liability to the assets of the fund. The Collective Investments Law and the Investment Company Regulations set out voting rights and rights to participate in profits and capital in a winding up. Details of legal form and structure, voting rights and rights on winding-up must be included in the fund constitution, review of which forms part of the licensing process. The constitution and prospectus must be circulated to investors on offering of units. Material changes to the constitution, prospectus in relation to investment policy or gearing limits or changes in operator, trustee, auditor, member of the governing body requires a special resolution, which requires 75 percent of votes cast as well as DFSA approval.</p> <p>Both the DFSA, with regard to investment trusts, and the Company Registrar, with regard to investment companies and limited partnerships, are responsible for ensuring adherence to form and structure requirements for funds. Both have the ability to give direction, to require production of information and to take action against noncompliance.</p> <p>Segregation and safekeeping of assets</p> <p>The Collective Investment Law requires that legal title of fund property be registered with a custodian approved by the DFSA (an eligible custodian) and held by that custodian. Custodians within the DIFC are authorized firms subject to full licensing and supervision requirements, including a US\$10 million minimum capital requirement or a requirement to be graded investment grade. Custodians do not have to be located in the DIFC but must be subject to requirements equivalent to those of the DFSA.</p> <p>The Collective Investment Rules requires an operator to ensure proper record keeping and maintenance of the unit holder register, including the number and class of units held by each unit holder. Operators must keep accounting records sufficient to show and explain transactions and which would be capable of disclosing the financial position of the Fund on an ongoing basis and record the financial position of the Fund at financial year end. Records must be retained for 6 years. The operator must record all transactions and record and maintain voice transactions.</p> <p>Operators must appoint an auditor. Details of audit requirements are set out in the Law and rules. The operator must prepare and maintain financial accounts in accordance with US GAAP or IFRS. Where a fund is an Islamic fund, accounts must be prepared in accordance with AAOFI standards. The auditor must report to unit holders and give a true and fair view of net income and net gains or losses of fund property.</p> <p>The Collective Investments Law and the Regulatory Law set out clear conditions and procedures for the winding up of funds and for the transferring of unit holder assets. Notice of a winding up must be given to unit holders and published in the press.</p>
Assessment	Fully implemented

Principle 19.	Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.
Description	<p>Prospectus requirements</p> <p>Public funds are required to issue a prospectus which must include: date of issuance; information of the legal form and structure of the fund; the rights attaching to the classes of shares and the rights of exercise of voting rights; and name of the operator, incorporation and material provisions of its contract with the fund (if the fund is a company, its board of directors is named, if a partnership the name of its partners and if a trust details of the trustee and the trustee's relationship with the fund). The prospectus must include details on methodology of valuation of the fund and must disclose how individual units are valued, how often valuations are disclosed and whether and how they are published. The prospectus must include audited financial statements prepared with IFRS or US GAAP. It must also disclose the appointment of any external administrator, manager or adviser and must include the identity of the custodian and the custodian's regulator.</p> <p>The prospectus must include the investment policy of the fund and disclose investment objectives. There are detailed requirements in the case of specialty funds, such as those holding real property.</p> <p>There is a requirement for a general risk warning to investors and more specific guidance for specialist funds (Islamic funds, property funds etc.). There is a general requirement that the operator disclose this detailed information as well as any other material information that investors would reasonably require to make an informed investment decision.</p> <p>Private funds, which have a limited investor base, are required to issue initial disclosure but this may be by way of a short-form prospectus, which has fewer requirements than those for a full prospectus. Private funds must disclose details of redemptions and exit arrangements, identity of the custodian, investment policy, and audited financial statements. There is no specific requirement to disclose valuation methods. The general obligation for disclosure of all material information that would be reasonably required to make an informed investment decision applies to private funds as well.</p> <p>Continuous Disclosure</p> <p>Where there has been a material change affecting information contained in the prospectus or a significant new matter arises, the operator is required to issue a supplementary prospectus. The operator must also issue an annual report containing specified information, including audited accounts, comparative table (public fund) or details of the performance of the fund (private fund), and reports from the operator, custodian, trust and Shari'a board. Interim and annual audited financial statements are also required.</p> <p>Audit standards</p> <p>Domestic funds must disclose financial statements that have been audited in accordance with IAASB or AAOFI standards.</p> <p>Advertising and marketing</p> <p>The law prohibits misleading or deceptive statements in relation to a fund or in connection with the offering of units of a fund and this general rule applies to the marketing and advertising of funds. The marketing of funds not regulated by the DFSA (foreign funds) is subject to restrictions—that is, a fund must be regulated in a jurisdiction recognized by the DFSA, or be subject to equivalent regulation. In addition, the sales of such funds can only be made by licensed</p>

	<p>firms subject to conduct of business rules.</p> <p>DFSA authority</p> <p>A prospectus must be filed with the DFSA before units can be offered in the DIFC. In addition, the DFSA has the power to issue a stop order directing no offers, issues, redemptions, sales or transfer of units. It can do so where the operator has contravened the law or failed to comply with a direction given by the DIFC, or where it would be in the interest of the DIFC or (in limited circumstances) in the interest of the unit holder. The DFSA has additional stop order and enforcement powers in the case of violation of DFSA rules.</p>
Assessment	Broadly implemented
Comments	In general, the regulatory framework for disclosure by collective investment schemes appears to be complete, particularly since the framework does not currently allow retail funds to operate in the DIFC. However, given the short time in which investment funds have been operating and the lack of experience with public funds, in particular, it is difficult to judge the effectiveness of the framework in practice.
Principle 20.	Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.
Description	<p>DFSA rules outline requirements for valuation. Listed securities should be valued at mid-market price, or mid-market, or last-trade price where there is a single quote price, and illiquid investments at fair value. A full valuation policy must be set out in the constitution of the fund. In addition, DFSA rules require fund operators to prepare financial accounts in accordance with IFRS (as supplemented by the Statement of Recommended Practice issue by the UK Investment Managers Association), US GAAP or the AAOIFI in the case of an Islamic fund. There must be an agreement between the operator, custodian and trustee (if applicable) regarding valuation methodology and, in the case of a public fund, method of valuation and pricing must be disclosed in the fund in the prospectus.</p> <p>DFSA rules require the operator of a public fund to issue and effect sales of the units of the fund in accordance with requirements set out in the constitution and prospectus and in a manner that is fair and reasonable as between all unit holders and potential investors. The operator has an obligation to ensure that units are correctly priced and in accordance with applicable accounting procedures. There are specific rules governing incorrect pricing and the operator is required to take immediate action to correct incorrect pricing.</p> <p>Both the auditor and the custodian have obligations to ensure that valuation, pricing, and redemption has been carried out in accordance with stated fund policy.</p> <p>There are no specific rules regarding the publication of price and no specific rules governing suspension of redemptions. The funds are required to include in the prospectus details of how often valuation will be calculated as well as redemption rights and a failure to abide by the disclosed policy would be a violation of DFSA rules. The DFSA has also proposed new rules under which the operator would be required to carry out valuation at specified intervals set out in the constitution and prospectus regarding suspension or deferral of routine valuation and, if this valuation is suspended, would be required to publish the price of units.</p> <p>The operator must inform the DFSA of a suspension in dealing. The DFSA may apply to the DIFC Court for an order to delay or stop the suspension.</p>
Assessment	Fully implemented

Comments	The framework governing valuation, pricing and redemption relies heavily on disclosure to investors and review by DFSA staff. Rules tend not to be prescriptive. The DFSA is currently proposing rules that would require operators to establish clear policies on timing and suspension of valuation and include these in disclosure materials. This change will provide investors with additional information and safeguards. However, the DFSA could consider more prescriptive rules or guidance for retail funds (should the DIFC open up to investors other than qualified investors), particularly with respect to redemptions and publication of prices and unit valuation.
Principles for Market Intermediaries	
Principle 21.	Regulation should provide for minimum entry standards for market intermediaries.
Description	<p>Licensing</p> <p>The law and DFSA rules require firms conducting financial services in the DIFC to be licensed by the DFSA. The DFSA has established four categories of licensee ranging from firms limited to advisory services, (with an initial minimum capital of US\$10,000) to firms with full banking and custodian services (with an initial minimum capital of US\$10 million). Ancillary service providers, including lawyers and accounting firms, providing services to financial institutions in the DIFC are also required to be registered by the DFSA.</p> <p>Intermediaries are subject to a full set of licensing requirements, set out in the DFSA authorization rules including requirements to demonstrate that adequate risk management systems and compliance arrangements are in place. Applicants must submit a business plan and must show adequate financial resources (see Principle 22 for detail). Applicants for license must be a corporation, partnership or unincorporated association. Applicants are subject to a fit and proper requirement, including background and regulatory checks.</p> <p>Individuals in certain positions, including senior executive officer, compliance officer and money laundering reporting officer are licensed individually and criteria for authorization of these individuals are set out in the rules.</p> <p>The one exception to the requirement to be resident in the center is for remote members of the DIFX. The DIFX allows intermediaries in foreign jurisdictions to trade on the exchange provided they have been registered with the DFSA as “recognized members”. These firms are not subject to a full licensing process but must come from a jurisdiction with a regulatory system deemed acceptable by the DFSA. The DFSA determines acceptability based on the regulatory standards applied in the home jurisdiction and would require adequate information sharing mechanisms (normally an MOU) be in place with the home jurisdiction.</p> <p>The DFSA has in place a comprehensive review system for licensing applications including advance consultation with potential licensees to address expectations and requirements. Final licensing decisions are made by an internal committee made up of senior management at the DFSA. The review of an application usually involves communication from regulators in home country jurisdictions as most authorized firms are headquartered overseas. The DFSA has emphasized this aspect of its operations. It has MOUs in place with key regulators and appears to have a good system of day to day communications with other regulators.</p> <p>The DFSA maintains a public registry of licensed firms indicating the scope of the license and lists all of its licensed individuals. The registry, which is easily accessible on the DFSA website, also indicates withdrawals and suspensions of licenses.</p> <p>Ongoing requirements</p> <p>Licensees are required to provide the DFSA with reasonable notice of changes of name, address,</p>

	<p>and legal structure. Immediate notice is required for failures to satisfy fit and proper requirements, any matter which could result in adverse financial consequences to the financial system or other authorized firms, or any prosecution or conviction of an offence involving fraud. Changes in ownership control would be subject to notice provisions and are reviewed by DFSA staff. Detailed notice requirements are set out in DFSA rules.</p> <p>The DFSA would have the ability to review the status and conditions of the license and take any necessary action using its enforcement powers.</p> <p>DFSA Authority</p> <p>The DFSA has clear authority under the Regulatory Law to grant an application for a license and to attach conditions to the license. The law gives the DFSA authority refuse to grant or change the scope of an existing license. The DFSA may also withdraw a license.</p> <p>Appeals from licensing decisions can be made first to the Regulatory Appeals Committee, a committee of the Board of directors, and a Regulatory Appeals Committee decision may be appealed to the DIFC Court in limited circumstances (see Principle 4).</p> <p>Ongoing supervision</p> <p>The DFSA has a supervision department which has established a comprehensive oversight program for licensed firms. This department is separate from the licensing department, although there is ongoing communication between the two groups. The DFSA takes a risk-based approach to supervision; licensed firms are subject to a continuous risk management cycle. Firms are identified as low, medium or high risk and this category dictates the frequency of review of all aspects of operations, including a review of practices related to prudential, conduct of business, internal controls and risk management practices. The DFSA can, and has, also carried out themed reviews. In 2006, the DFSA carried out 27 on-site reviews and it plans 70 on-site reviews in 2007.</p>
Assessment	Fully implemented
Principle 22.	There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.
Description	<p>Requirements</p> <p>DFSA rules set out an extensive regime for prudential regulation of licensed firms. The rules specify minimum initial and ongoing capital requirements for all firms. The ongoing capital requirements are consistent with the Basel I standards and are determined as the highest of the following three components:</p> <ul style="list-style-type: none"> • minimum or base capital requirement • an expenditure based capital minimum; or • a risk capital requirement which is based on the risks assumed by the firm. <p>The prudential framework takes into account the risk profile of the firms, based on the size, nature and complexity of their activities. Accordingly, the firms are grouped into different categories for application of prudential rules. Category 3 and 4 firms, which are licensed to provide a limited range of financial services, have a minimum capital of US\$500,000 and US\$10,000. respectively. Category 1 and 2 firms, who have more complex businesses like providing credit or principal trading, have minimum capital requirements of US\$10 million and US\$2 million respectively. The expenditure based capital minimum requirement is calculated as a specified percentage of the firm's annual audited expenses, with the applicable percentage being determined on the basis of the nature and complexity of the firm's activities.</p>

	<p>The risk capital requirement calculation includes specific capital charges for market and credit risk. Firms have a general requirement to maintain adequate financial resources in relation to the nature size and complexity of their businesses, in addition to specific levels and calculation requirements. Management must demonstrate its understanding of the firm's risk profile and sufficiency of capital to meet that profile.</p> <p>The capital and prudential requirements of home country regulators play a large role in the regulatory system since most of the licensed firms are part of large international institutions. The DFSA is careful to ensure that the home country regulator has adequate standards.</p> <p>Reporting</p> <p>Firms are required to maintain continuous calculation of capital adequacy, and must report any breach or expected breach of the rules immediately to the DFSA. Firms must file quarterly and annual prudential returns. Examination of the systems that calculating and reporting capital levels forms a key part of the supervision program.</p> <p>Capital adequacy is also reviewed by the firm's external auditor. Domestic authorized firms (those primarily regulated by the DFSA) must use an auditor registered and approved by the DFSA. The DFSA has established standards for auditors based on the International Financial Audit Committee (IFAC) standards and has the power to remove an auditor from the list. Foreign firms would be subject to audit standards in the home country.</p>
Assessment	Fully implemented
Principle 23	Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.
Description	<p>Management</p> <p>DFSA rules make the governing body and senior management responsible for overseeing activities of the firm. Certain officers and directors are licensed. Firms are required to implement and maintain an appropriate management and organization structure, adequate internal controls and ensure that the firms operations are adequately monitored and controlled by senior management and the governing body. DFSA rules require that a member of senior management or the governing body be designated as responsible for particular aspects of the firm's risk management—for example, the rules make the governing body responsible for liquidity risk management. Firms must have clear reporting lines and clear designation of management responsibilities. Key duties and functions must be designated and segregated—for example, firms must appoint internal audit and compliance functions that report to management separately from sales and other business functions.</p> <p>DFSA rules require firms to undertake regular reviews of systems and controls and risk management processes. An appointed individual must advise the governing body and senior management of risks to the firm and its customers.</p> <p>The DFSA undertakes a review of internal controls and risk management systems as part of its on-site reviews. External auditors have an obligation to report any breaches of law or DFSA rules to the DFSA.</p> <p>Customer protection</p> <p>DFSA conduct of business rules set out detailed requirements on the segregation and safekeeping of customer assets. Firms are required to obtain and maintain information sufficient to</p>

	<p>“know-your-client” and to provide suitable investment advice. Firms are obliged to provide a client with a client agreement setting the terms and conditions of service and the basis on which investment business is to be conducted. Firms are under a general obligation to provide information to clients that is clear and not misleading but there are no specific risk statement requirements. Firms must provide with confirmation statements within two days of a transaction and must provide account statements periodically—at least every six months unless the client indicates otherwise and then at least annually, or monthly if the client maintains an uncovered position. Client records must be retained for 6 years.</p> <p>Firms are required to maintain a register of customer complaints. This register would be examined as part of an on-site examination.</p> <p>Internal controls</p> <p>Firms are subject to extensive record keeping requirements which would produce a full audit trail for all transactions, in addition to the financial and capital position of the firm. DFSA rules require firms to maintain systems and controls which ensure that the firm and its employees do not engage in conduct, or facilitate others to engage in conduct, which may constitute market misconduct or financial crime. Firms must appoint a compliance officer and ensure that the officer has sufficient resources, access to records and senior management and the governing body. Compliance activities must be documented as well as any breach of the law or rules.</p> <p>DFSA rules require firms to manage conflicts of interest and ensure clients are fairly treated. Firms are required to identify conflicts of interest and where necessary, set up Chinese walls, disclose the conflict to clients or establish a written policy of independence for staff dealing with clients. If conflicts of interest cannot be managed, the firm must decline to act for the client.</p>
Assessment	Fully implemented.
Principle 24.	There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.
Description	<p>The DFSA risk-based prudential rules are designed to minimize the impact a firm’s failure will have on the DIFC and other market participants and provides sufficient resources to facilitate the closure. The DFSA has adequate authority and supervisory tools to take appropriate corrective actions if capital falls below the minimum standards. The DFSA has broad authority to impose restrictions on a firm if there is a risk of loss of customer assets. The DFSA may withdraw a firm’s license if it is in breach of the law or rules.</p> <p>In relation to trading, clearing and settlement undertaken by DIFX, there are a series of protections available to DIFX to help reduce the likelihood and impact of a firm failure. These include DIFX’s Business Rules, procedures and plans for dealing with liquidity and credit shocks. The DIFX has power under its rules to restrict member activities, move customer accounts to another member or act to liquidate a defaulting member’s assets. The DIFX can disclose relevant information regarding a member’s failure to the market.</p> <p>The DFSA can seek appointment of a receiver or administrator to take possession or control of the assets held by the intermediary or third party on behalf of an intermediary and can apply to the DIFC court for a winding down of a licensed firm. The court has the ability to move customer accounts.</p> <p>The DFSA has a communication and reporting plan in place in the event of a crisis, which could include the sudden insolvency of a licensed firm. Communications with home country or other interested foreign regulators would form part of this plan where relevant.</p>
Assessment	Fully implemented

Principles for the Secondary Market	
Principle 25.	The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.
Description	<p>Licensing Requirements</p> <p>The Regulatory Law requires all trading systems, exchange and clearing and settlement systems in the DIFC to be licensed and supervised by the DFSA. Licenses are subject to terms and conditions. A separate license is required to operate an official list of securities. The DIFX is currently licensed as an exchange, a listing authority and a clearing and settlement system. Its license is restricted to equity and fixed income products. Should it wish to introduce derivatives products, it must apply for additional approvals.</p> <p>Licensing requirements are set out in DFSA rules and include requirements related to fitness and propriety; maintenance of proper markets; sufficiency of financial resources; sufficiency of human and technology resources; adequacy of systems and controls; members' access to facilities; general safeguards for investors; identification, deterrence and prevention of market misconduct, financial crime and money laundering; promotion and maintenance of standards; whistle blowing; clearing and settlement; transaction recording; safeguarding and administration of assets; business rules; compliance with business rules; complaints; default rules; the official list of securities; and compliance with listing rules. The DFSA has issued additional guidance setting out risk management procedures for central counterparty and clearing functions, including requirements to have a separate risk management department, arrangements for calculating, collecting and holding margin, frequency of monitoring, and stress testing of the risk management model. Licensees are required to have sufficient financial resources, at a minimum half of estimated gross operating costs for the next twelve months. It must have business rules that are enforceable against members, default rules and monitoring systems in place. The exchange must have a disciplinary process in place, including an appeal process, and have the right to revoke or suspend access to trading. An affected person has the right to appeal a DIFX decision to the Financial Markets Tribunal.</p> <p>The exchange is under a general obligation to maintain a fair, orderly and efficient market. It must maintain systems and controls in relation to the supervision and monitoring of transactions. In assessing this, the DFSA will consider the arrangements under which orders are received and matched, transactions are reported and potential misconduct is identified.</p> <p>The licensing process for the DIFX was extensive and resource intensive. DFSA staff resources were supplemented with external expertise on technology systems and clearing and settlement systems. The DIFX operates a central counterparty as part of its clearing and settlement function and is therefore subject to additional prudential and risk management requirements. The DFSA has recently begun prelicensing discussions with the Dubai Mercantile Exchange, which recently announced its intention to begin operations in the DIFC.</p> <p>DFSA has the authority to vary, withdraw or impose conditions on the exchange's license.</p> <p>New products</p> <p>The DIFX, which is also granted authority to operate an official list of securities, must provide the DFSA notice of its intention to introduce a new product for trading. The DFSA has the right to review and object to the new product. In practice the DIFX and DFSA are in close communication on new listings. The DFSA requires that exchange rules setting access to trading and listing must be clear, fair and enforceable.</p> <p>Trading rules</p>

	<p>Access to trading must be restricted to members of the exchange—either firms licensed by the DFSA or recognized members who are registered with the DFSA and have a primary regulator in another jurisdiction. DFSA conduct of business rules include a best execution rule, pricing of off exchange trades, aggregation and allocation of orders, churning, timely execution, client priority and timely allocation of transactions to client accounts. Records must be kept of all transactions and systems in place to monitor compliance with these requirements.</p> <p>An exchange must clearly disclose its order routing and execution procedures, and indeed the DIFX makes this information transparent and available. The DFSA reviews arrangements for receiving and matching of orders.</p> <p>Trading Information</p> <p>DIFX market rules are published and available on its website and are, therefore, equally available to all members. The DFSA is required to assess transaction reporting arrangements as part of the licensing arrangement and review and approve these according to the particular nature of the market. On the DIFX, all bids and offers are visible to members on an anonymous basis and all trades are immediately reported and transparent in real time, including price and volume but not identity of the parties to the trade.</p> <p>Off exchange trades are permitted. Rules are in place for pricing of block trades which are then reported and cleared and settled through the DIFX. Trades that are not reported or cleared and settled through DIFX are not subject to price rules but these appear to be negligible in number.</p>
Assessment	Fully implemented
Principle 26.	There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.
Description	<p>The DFSA's oversight of the DIFX includes a program of licensing, reporting and inspections. The DIFX and the DFSA have entered into a formal protocol setting out the roles of each organization. The protocol is in the process of being revised to reflect experience of both organizations during the initial period of the exchange's operations.</p> <p>DIFX senior management meets monthly with DFSA markets staff to discuss high level issues. A joint regulatory committee meets every two weeks to discuss ongoing issues related to supervision and regulation of the markets. Relevant staff also meet monthly to discuss clearing and settlement issues and membership issues. The exchange also prepares a monthly report for the DFSA on market activity.</p> <p>All changes to DIFX rules, including listing rules, are subject to approval by the DFSA. The DIFX must provide notice of proposed listings, complete with full details, and the DFSA has the right to object to that listing. The exchange must produce an annual report, including audited financial statements, which is publicly available on request. The DIFX must provide the DFSA with a copy of any audit committee report that concerns a regulatory function of the DIFX.</p> <p>The DFSA has access to all pre trade and post trade information. The DFSA markets department receives alerts from the DIFX surveillance system, which it follows up on according to its criteria for investigation. The DIFX regulates only the trading conduct of its members, and in addition to market surveillance, carries out limited on site reviews of members.</p> <p>The DFSA has the authority to examine the exchange. The DFSA has carried out two supervisory reviews of the exchange since it began operating in September 2005; one of its listing authority and listing function and the other of its disclosure processes, both areas were identified as priority</p>

	<p>areas of review. The DFSA can authorize a third party expert examination of the DIFX, as it has done in the case of clearing and settlement systems at the time of licensing.</p> <p>The DFSA can impose sanctions on the exchange, including revocation or modification of the exchange's license.</p>
Assessment	Fully implemented
Principle 27.	Regulation should promote transparency of trading.
Description	<p>DFSA rules stipulate that an exchange must ensure that its systems and controls are adequate and suitable for the performance of its functions and appropriate to the scale and nature of its operations. In assessing the adequacy of an exchange's systems and controls for the transmission of information, the DFSA would ensure the information is transmitted promptly and accurately to members. In determining whether an Exchange is ensuring that business conducted on its facilities is conducted in an orderly manner the DFSA considers the arrangements for pre and post trade transparency, taking into account the nature and liquidity of the traded instrument.</p> <p>DIFX rules contain the pre- and post-trade information arrangements for trades executed on the exchange. The rules requires that the exchange continuously disseminate to its members (as well as information vendors and others with licensing agreements with the exchange) the market by limits: the five best bid or ask limits in the central order book, including the number of orders and total disclosed order quantity at each such limit. The quantity, price and time of execution of a transaction that took place on its central order book are also continuously disseminated. The exchange is required to have fair and transparent rules governing the equitable dissemination of information to members as well as a general obligation to maintain a fair and orderly market.</p> <p>The DIFX rules allow for derogation of general transparency requirements in the case of negotiated trades which are then reported and cleared and settled through DIFX (block trades). Members must report these trades within specified periods of time.</p> <p>There is no rule requiring all trades in listed securities to go through the DIFX. Since the DIFX is the central depository, members have incentive to report trades through the DIFX. There is no evidence that an over the counter market exists in the DIFC in any meaningful way.</p>
Assessment	Fully implemented
Principle 28.	Regulation should be designed to detect and deter manipulation and other unfair trading practices.
Description	<p>Under article 36 of the Markets Law, fraud and market manipulation is an offence. This provision states that a person shall not, in the DIFC or elsewhere, directly or indirectly, engage or participate in any act, practice or course of conduct relating to investments that the person knows or reasonably ought to know results in or contributes to, or may result in or contribute to, a misleading appearance of trading activity in, or an artificial price for, investments or perpetrates a fraud on any person. Under article 37, a person is prohibited, in the DIFC or elsewhere, from making a statement that the person knows or reasonably ought to know, at the time and in light of the circumstances under which it is made is misleading or untrue and significantly affects, or would reasonably be expected to have a significant effect on, the market price or value of investments.</p> <p>Further prohibitions in relation to misleading or deceptive statements can be found in article 39. This includes the prohibition that a person shall not make an offer of securities under a prospectus or supplementary prospectus if it contains a misleading or deceptive statement in the prospectus or supplementary prospectus, any application form that accompanies the prospectus or supplementary prospectus or any other document that relates to the offer, or the application form.</p> <p>Under article 41 it is an offence to induce persons to deal in investments by making or publishing a statement, promise or forecast if the person knows the statement is misleading, false or</p>

	<p>deceptive, by virtue of concealing of material facts or by recording or storing information that the person knows to be false or misleading in a material respect or may be materially misleading.</p> <p>Article 42 provides for the offence of insider dealing. If in possession of material information a person is prohibited from dealing in investments if that information is not generally available in the market and has not been disclosed to the market in accordance with this law or the rules. In addition to this, it is also an offence under article 43 to provide inside information, i.e., material information that has not been made available to the public.</p> <p>Finally in respect of other market misconduct, article 38 prohibits misleading or deceptive conduct by a person in the DIFC or elsewhere in relation to investments.</p> <p>For securities traded, cleared and settled on DIFX the DFSA is ultimately responsible for oversight and has various powers to ensure this takes place. However, the DIFX is the front line regulator. It has a market surveillance function separate from business functions and maintains an overview of the market and ongoing contacts with DIFX Members.</p> <p>With regard to debt products listed on DIFX but traded, cleared and settled elsewhere the process is different. Much of the business is not only not processed via DIFX's systems but also takes place outside of DIFC and in the normal Euromarket venues. At this stage there is not a great deal of trading taking place but DIFX and DFSA are watching developments. Additionally, the relevant regulators of the firms participating in these markets (in the case of licensed firms, DFSA, and in the case of others their home regulators) take steps to monitor trading activities.</p> <p>Market surveillance systems at the DIFX and market monitoring and enforcement systems at the DFSA appear to be robust. These have been described elsewhere in the assessment.</p> <p>As discussed earlier, the DFSA has a number of MOUs in place and emphasizes cooperation with foreign regulators as befits a market international in nature.</p>
Assessment	Fully implemented
Comments	Although the level of market activity at the DIFX has not provided a challenge to the market monitoring systems at either the exchange or the DFSA, the DFSA has demonstrated its ability and willingness to successfully pursue market abuse activities that have arisen.
Principle 29.	Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.
Assessment	Fully implemented
Principle 30.	Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.
Description	Since the development of the CPSS-IOSCO standards for securities settlement systems, IOSCO assessors have been asked not to provide an assessment of Principle 30, allowing for a separate, more detailed assessment.
Assessment	Not assessed.

Table 2. Summary Implementation of the IOSCO Objectives and Principles of Securities Regulation

Assessment Grade	Principles Grouped by Assessment Grade	
	Count	List
Implemented	27	1-16, 18, 20-29
Broadly Implemented	2	17, 19
Partly Implemented		
Nonimplemented		
Not applicable		

G. Recommended Actions and Authorities' Response to the Assessment

Recommended Actions

Table 3. Recommended Plan of Actions to Improve Implementation of the IOSCO Objectives and Principles of Securities Regulation

Reference Principle	Recommended Action
Principles Relating to the Regulator (P 1-5)	Complete Memorandum of Understanding with the Central Bank of the UAE Consider lengthening the comment period for new rules
Principles for Issuers (P 14–16)	Consider stipulating audit standards in DIFX rules
Principles for Collective Investment Schemes (P 17–20)	Consider more detailed rules for valuation and redemption should the regulatory regime be extended to retail products

Authorities' Response

The DFSA considers the document to be a fair and well articulated assessment of the DFSA's conformity with IOSCO's Objectives and Principles of Securities Regulation and has no additional comments.