

Level 13, The Gate
P.O. Box 75850, Dubai, UAE
Tel: +971 (0)4 362 1611
Fax: +971 (0)4 362 0802
E-mail: info@dfsa.ae

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To the Senior Executive Officers
of DFSA Authorised Firms

Dear SEO

Re: Enhancements to our Supervisory Programme for Authorised Firms

This letter sets out changes to our supervisory approach. The changes represent a structured and proportionate response to current regulatory developments within the DIFC and internationally.

The DIFC is maturing as a financial centre. The centre now has over 250 Authorised Firms engaged in a wide range of activities. Some of these Authorised Firms are start-ups and have not previously operated in a regulatory environment. Approximately 50% of Firms are prudential Category 4 entities, undertaking the financial services of advising and arranging.

Regulators around the world, in response to the recent financial crisis, are increasing the level of supervisory scrutiny of corporate governance structures, senior management capability, capital, risk management and remuneration policies. The aim is to enhance regulation and organisational standards within Firms to address the risks posed by a more complex and interconnected global financial market.

In this heightened regulatory environment, and to reflect the profile of the Firms we supervise, we are introducing an annual controls questionnaire, to be completed by all Category 4 firms. The questionnaire asks for a self-evaluation in aspects of management and control within a Firm that the DFSA views as critical. As such, the questionnaire will assist a Firm to identify action that it may need to take to meet regulatory requirements. The questionnaire will also lead to efficiencies as the data provided will be used to inform our supervisory priorities.

The first questionnaire will be circulated shortly and will be required to be completed and returned to the DFSA by 31 July 2009.

- In addition to the questionnaire, we are also implementing the following supervisory initiatives:
- Introduction of an enhanced risk assessment to further refine our risk profiling of Firms. Emphasis will be placed on business rationale, corporate governance, remuneration policies, risk management, conduct and AML controls. The scope and frequency of such assessments will be driven by a Firm's risk profile;

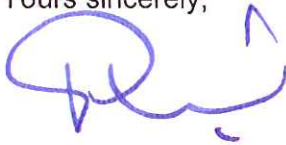


- More thematic reviews to address a single issue across a number of firms with a focus on conduct of business and systems and controls;
- Use of transaction testing visits to assess a Firm's business operations and controls across a number of areas. These visits will be targeted at higher risk firms and will augment the risk assessment cycle;

The overarching aim of these initiatives is to ensure that Firms regulated by the DFSA can address the upgrade in management and controls now required, world-wide, of financial market participants. In doing so, the DFSA aims to maintain a regulatory environment that is robust and commensurate with international standards, but is also an enabling environment for prudent growth.

I hope you find this letter helpful in understanding our supervisory strategy moving forward. If you have any questions in relation to any aspect of this letter, please do not hesitate to contact your Relationship Manager.

Yours sincerely,



Paul M Koster
Chief Executive

