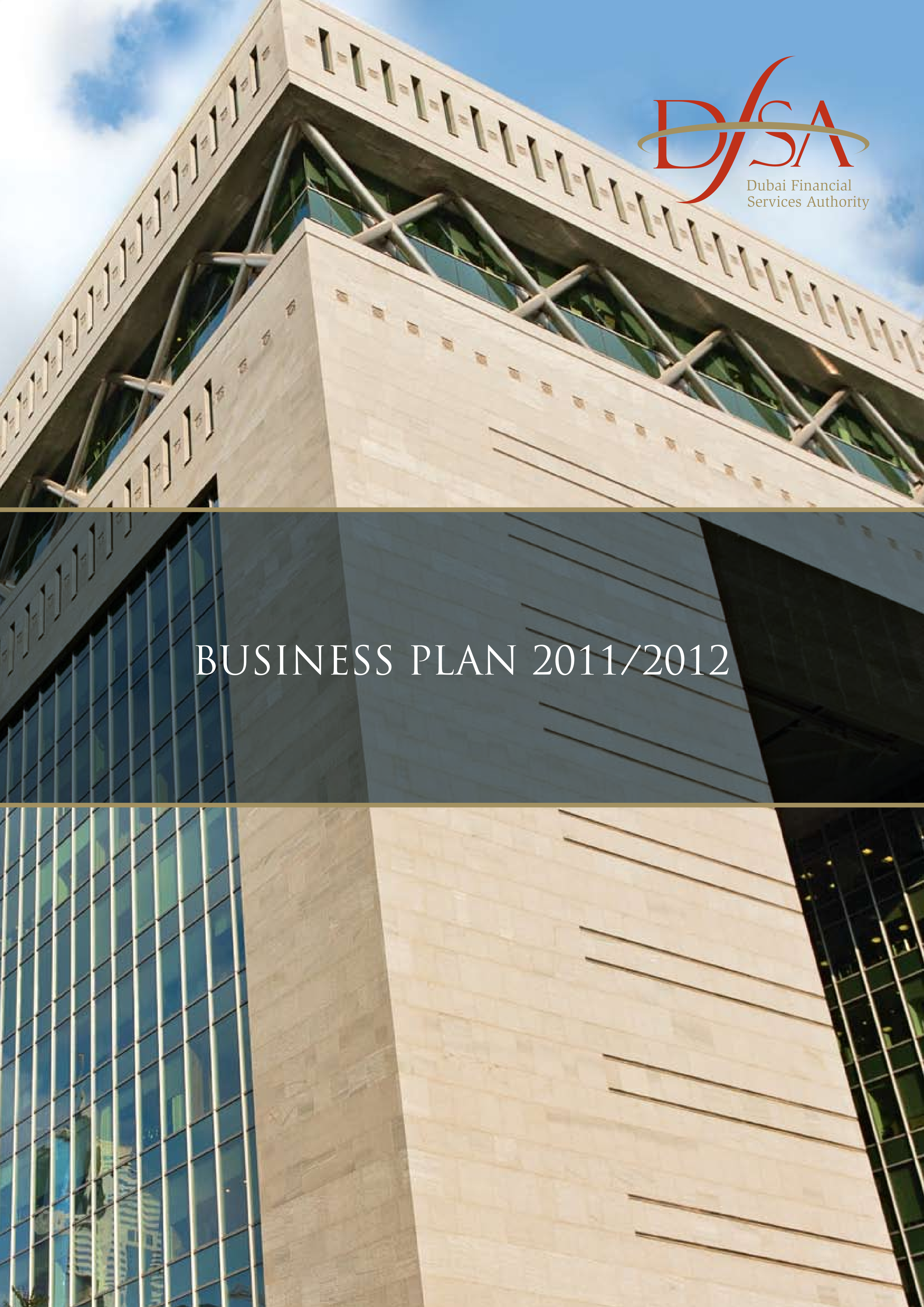

DFSA
Dubai Financial Services Authority

BUSINESS PLAN 2011/2012

DFSA

The Dubai Financial Services Authority is the independent regulator of financial and ancillary services conducted in or from the Dubai International Financial Centre, a purpose-built financial free-zone in Dubai.

The DFSA's regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, an international equities exchange and an international commodities derivatives exchange.

DUBAI FINANCIAL SERVICES AUTHORITY

VISION

To be an internationally respected regulator and a role model for financial services regulation in the Middle East.

MISSION

To develop, administer and enforce world-class regulation of financial services within the DIFC.

REGULATORY APPROACH

To be risk-based and to avoid unnecessary regulatory burden.

VALUES

To expect high standards of ethical conduct and integrity from the DFSA and its people.

To demonstrate professionalism, independence, efficiency, leadership and resolve in the discharge of our responsibilities.

To ensure administrative fairness, consultative process, accessibility, impartiality and accountability in the performance of our functions.

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DFSA OBJECTIVES *and* PRINCIPLES

The DFSA has established, and strives to maintain, an environment that fosters the DIFC guiding principles of integrity, transparency and efficiency. It has done so by embedding high standards in a clear, succinct and flexible regulatory framework based on international best practices relevant to a modern international financial centre.

In discharging its regulatory mandate, the DFSA has a statutory obligation to pursue the following objectives:

- To foster and maintain fairness, transparency and efficiency in the financial services industry (namely, the financial services and related activities carried on) in the DIFC;
- To foster and maintain confidence in the financial services industry in the DIFC;
- To foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk;
- To prevent, detect and restrain conduct that causes or may causedamage to the reputation of the DIFC or the financial services industry in the DIFC, through appropriate means including the imposition of sanctions;
- To protect direct and indirect users and prospective users of the financial services industry in the DIFC;
- To promote public understanding of the regulation of the financial services industry in the DIFC; and
- To pursue any other objectives as the Ruler may, from time to time, set under DIFC Law.

In exercising its powers and performing its functions, the DFSA shall take into consideration the following guiding principles:

- Pursuing the objectives of the DIFC as set out under Dubai Law in so far as it is appropriate and proper for the DFSA to do so;
- Fostering the development of the DIFC as an internationally respected financial centre;
- Co-operating with and providing assistance to regulatory authorities in the United Arab Emirates (UAE) and other jurisdictions;
- Minimising the adverse effects of the activities of the DFSA on competition in the financial services industry;
- Using its resources in the most efficient way;
- Ensuring the cost of regulation is proportionate to its benefit;
- Exercising its powers and performing its functions in a transparent manner; and
- Complying with relevant generally accepted principles of good governance.

STATEMENT *by the* CHIEF EXECUTIVE

STATEMENT *by the* CHIEF EXECUTIVE

This document constitutes an integrated business plan for the DFSA for the next two years from 2011 to 2012. We have also thought about our direction over the slightly longer term, though this thinking must inevitably be more tentative. The experience of the financial crisis has taught us in dramatic terms how readily the financial world can surprise us.

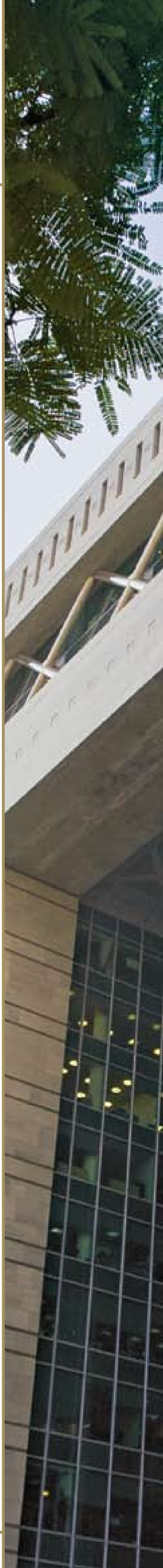
The effects of the financial crisis are the most important drivers for our planning over this period. The crisis has at least four impacts:

- Financial services firms are going through a period of strain. This has affected a number of Firms in the Centre, though arguably the worst may now be past. It has also affected the level of new applications, and although there are some signs of a pick-up these are unlikely to return quickly to the peaks encountered in mid-2008.
- It has led to greater conservatism and a more active regulatory style internationally, with less emphasis on market discipline and on firms acting in the best economic interests of their shareholders. In particular, this has led to a more intrusive style of prudential supervision.
- It has led to increased international momentum for standards generation and implementation.
- It has caused the DIFC Authority (DIFCA) to reconsider its own structure and strategy. This has led to a renewed emphasis on the Centre's contribution to the economy of the UAE, including broadening and deepening the activity of firms already in the Centre. It has also led to a refocusing of business development activity towards Asia and the Middle East and North Africa (MENA) region.

The crisis has led to a reorganisation of the international standards architecture. The G20, through the Financial Stability Board (FSB), has taken a much more commanding role, and the FSB is now effectively the main driver of standard-setting and implementation. The increased pace of standard-setting makes it more important for the DFSA to be coupled into this process. It also means that there is an increased flow of standards, and increased pressure to implement them. The most notable will be the revised Basel Accord, including the new liquidity standards associated with it. It is also possible that the UAE's assessment by the International Monetary Fund (IMF) and World Bank under the Financial System Assessment Program (FSAP) will be updated during the plan period; if so, this will impose additional resource demands.

We shall also need to respond to changes in technology and the business models of Firms. One clear area of change is in exchanges, whose physical location becomes less clear as more of their functions are executed in software, while participants trade remotely through web-based systems, and may use multiple intermediaries to make their actions less visible to others. These are challenges for all regulators, but especially for one in a small jurisdiction.

The increased maturity of the Centre will result in a population of Firms with established, and in some cases substantial, businesses here. This will increase the supervisory



challenges for those Firms, especially to the extent that they assume prudential risk. Since the DIFC is largely a host jurisdiction for branches or subsidiaries of Firms headquartered elsewhere, there will be an increasing need to become involved in supervisory colleges. Increased maturity is also likely to increase the number of DIFC Firms that have branches or subsidiaries elsewhere, meaning that the DFSA will need to assume lead supervisor responsibilities. The interest in the orderly cross-border resolution of financial groups may also lead to greater use of subsidiarisation and more attention to intra-group transactions, which may give us greater "solo" responsibilities.

In recent years, we have adopted an increasingly structured approach to assessing and managing risk. This now includes explicit definition by our Board of its risk appetite. The Board has produced a detailed risk appetite map, which reflects a relatively, but not extremely, conservative risk appetite. This will translate into a relatively high cost of controls against regulatory risks. The Board's risk appetite will be reflected in our Rulebook as well as in our authorisation, supervision and enforcement activities.

The increasing maturity of the Centre also allows it to be recognised as a positive contributor to the economy and international standing of the UAE more generally. This helps us in the continuing task of developing closer relationships with our UAE counterparts, which will continue to be a priority through the plan period. In addition, the DFSA may be able to play a role in the integration of markets in the UAE and in the Gulf Co-operation Council (GCC) region more generally.

From this discussion, and from the more detailed analysis that follows, common themes emerge. They are:

Quality The pursuit of our regulatory objectives in a growing Centre, with the effects of the financial crisis still playing out, will demand high quality in all our regulatory and support functions.

International Engagement As discussed above, the regulatory agenda is now being set at an international level, and the DFSA needs to be engaged with this, both to ensure that standards take proper account of the needs of jurisdictions like our own and to ensure that we have the expertise to implement the standards as they emerge.

Collaboration with other regulators, both within and beyond the UAE. In particular, we shall need to deepen our relationships with home state regulators in jurisdictions from which a significant number of Firms originate or are expected to do so.

Anticipation We need to be forward-thinking in our regulation and, where we can, to lead regulatory thought in the region and beyond.

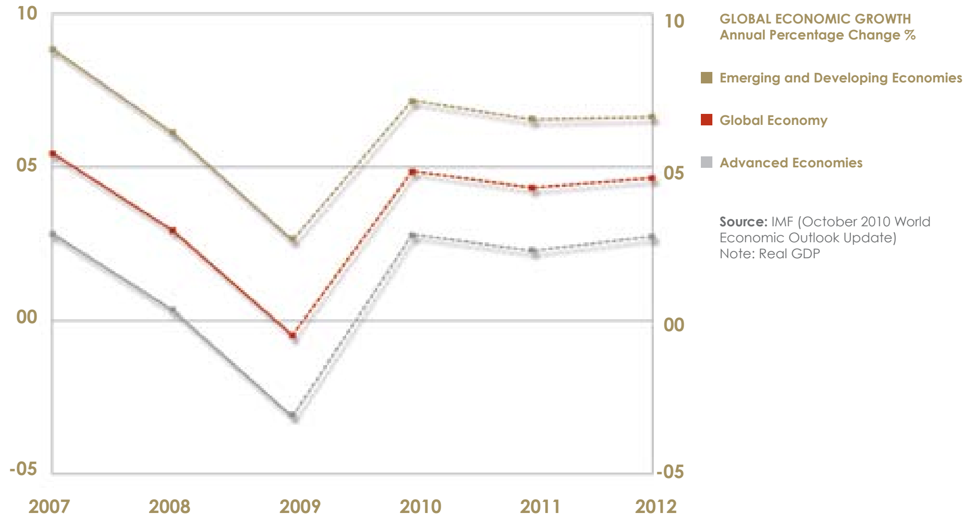
These themes, and their implications, will be discussed in more detail in the sections that follow.

DFSA PLANNING ENVIRONMENT

DFSA PLANNING ENVIRONMENT

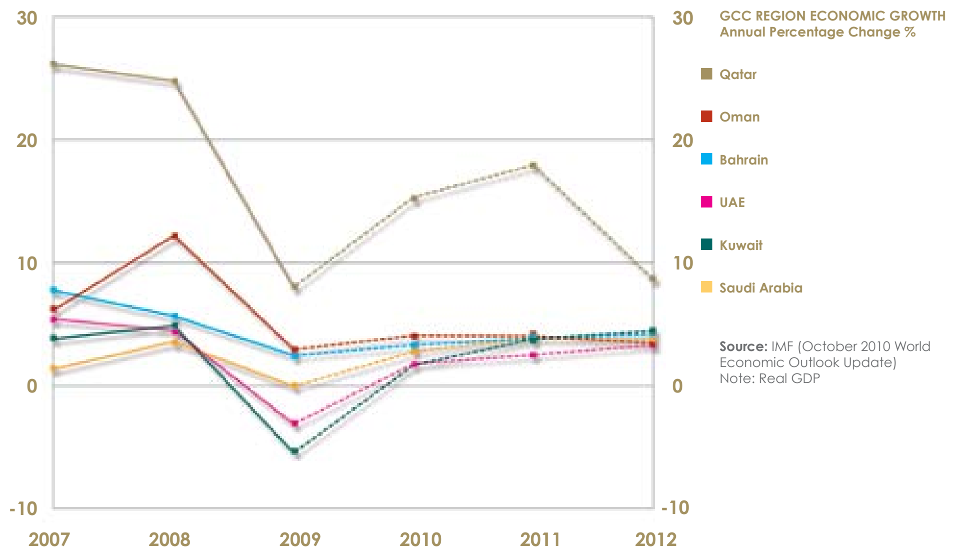
ECONOMIC

Global



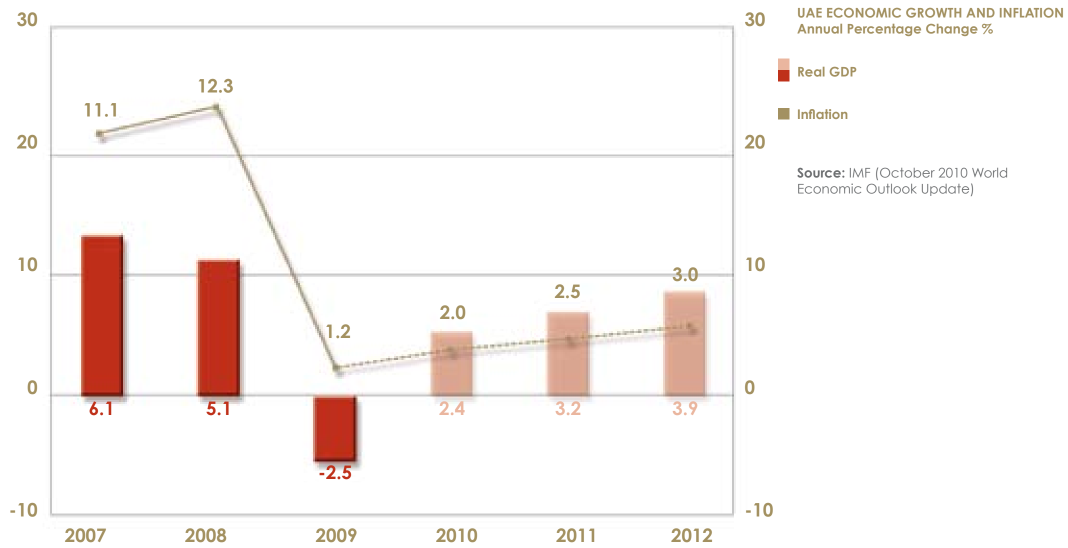
The global economy is emerging from its first contraction since the Second World War, prompted by the global financial crisis. The recovery is particularly fragile in advanced economies and especially in places such as Europe where austerity measures are deepening amid high unemployment and weak bank credit growth. Risks to financial stability are also heightened in light of continuing concerns regarding debt sustainability in a number of European countries. These factors pose downside risks to the forecasts presented. Emerging markets, which managed in aggregate to avoid recession in 2009, will lead the economic recovery in the years ahead. Particular strength is anticipated in South East Asian markets while emerging European and former Commonwealth of Independent States (CIS) are likely to lag. A key challenge for a number of emerging market economies is containing inflation (generally via tightening monetary policy) while trying to deter excessive short-term capital inflows. Overall, global growth rates in 2011 and 2012 are expected to moderate slightly from their pre-crisis levels.

Region



Gulf economies slowed sharply in 2009, as the global financial market instability that followed the September 2008 Lehman's bankruptcy filing spilled over to the region. Economic weakness was concentrated in the oil sector, as GCC states implemented deep production cuts following record reductions in OPEC production quotas aimed at slowing the plunge in the oil price. The region avoided a contraction in output as Gulf governments eased fiscal policy to offset falling private consumption and investment and took prompt action to promote financial stability. In aggregate, the GCC economy expanded just 0.4% in 2009 and is expected to rebound to a 4.5% growth rate in 2010 and 5.9% in 2011. Qatar will be a notable outperformer due to sizeable gas production capacity expansion.

UAE



The global economic crisis has placed the UAE on a more sustainable growth path. In the period 2003-2008 when the oil price soared to record highs, the UAE experienced unsustainably high economic growth and inflation rates. The economic boom came to an abrupt halt in late 2008 following the Lehman's bankruptcy. Timely government interventions to promote stability in the strained banking system and to offset the contraction in domestic household and corporate consumption and investment mitigated the effects of global financial and economic instability. Conditions were not even across the nation with Dubai enduring the sharpest downturn due to heavy indebtedness of government-related entities (in the absence of oil wealth), the over-heated state of its real estate sector and heightened exposure to the global economy due to advanced diversification efforts. In the coming years, the UAE economy is expected to gradually return to a sustainable, long-term growth rate of 4-5% and inflation is expected to remain at low levels.

REGULATORY DEVELOPMENTS

In response to the global financial crisis, the international financial community established the FSB to address vulnerabilities and develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

The FSB has advanced a major programme of financial reforms based on clear principles and timetables for implementation that are designed to prevent a crisis of this scale from occurring again.

Financial Stability Board Membership

International Standard-Setting Bodies and Other Groupings	International Organisations	Member Jurisdictions
BCBS (Banking)	BIS	G20*
IAIS (Insurance)	ECB	SPAIN
IOSCO (Securities)	EC	HONG KONG
IASB (Accounting)	IMF	THE NETHERLANDS
CPSS (Payment and Settlement)	OECD	SINGAPORE
CGFS (Market Stability)	THE WORLD BANK	SWITZERLAND

** Excludes EU*

Significant reform has already been achieved through the development of new regulatory standards by the international standard-setting bodies. These bodies include the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the International Organisation of Securities Commissions (IOSCO) and the International Accounting Standards Board (IASB). However, much policy development is still under way and implementation of the full set of necessary reforms will take considerable time.

In keeping with its commitment to international standards, the DFSA will expect to implement those reforms that are relevant to it. The reforms which are projected for completion in 2011-12 and are considered most relevant to the DFSA are summarised overleaf. The timetable for implementation will be influenced by the prospect of an FSAP review of the UAE during the plan period; at the time of writing, a date for this had not been set.

Before dealing with new standards, however, there are two further developments which should be noted. Many governments are imposing bank taxes of one kind or another, and bearing down more generally on tax evasion and avoidance related to financial services. While these developments may offer opportunities to the DIFC,

it is important that the practices of Firms in the Centre remain within the boundaries of the law, and the DFSA may need to pay particular attention to accounting and record-keeping.

Core Principles

IOSCO

Earlier this year, IOSCO published its revised Principles based on the lessons learnt from the recent financial crisis and subsequent changes in the regulatory environment. These include eight new Principles which cover specific policy areas such as hedge funds, credit rating agencies and auditor independence and oversight, in addition to broader areas including monitoring, mitigating and managing systemic risk; regularly reviewing the perimeter of regulation; and requiring that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed. Work is currently underway on revising the Methodology to reflect these changes which is expected to be completed by mid-2011.

We intend to conduct a self assessment of our compliance with the revised IOSCO Principles once the revised Methodology has been completed.

IAIS

The IAIS Insurance Core Principles (ICP) Co-ordination Group has been established to provide a revised set of ICPs in time for adoption in October 2011. The revised ICPs will be supported by corresponding standards which will identify key requirements that should be applicable to all jurisdictions and will be used to assess observance of the respective ICPs.

BCBS

The BCBS also intends to review its Core Principles for Effective Banking Supervision to incorporate the numerous reports and guidance which it has issued since the financial crisis. This review is expected to commence at the beginning of 2011.

Solvency Requirements

Banking: Basel III Framework

The BCBS has recently delivered a revised package of global standards for capital and liquidity. These standards, amongst other things, raise the quality of capital, increase the minimum level of capital, introduce a leverage ratio and liquidity standards, and promote the accumulation of capital buffers.

The capital standards will be phased in as financial conditions improve with the aim of full implementation by the beginning of 2013. After this time, the capital standards will increase each year, becoming fully effective by the beginning of 2019. The first of the liquidity standards will be implemented in 2015, following an observation period.

Islamic Standards

The Islamic Financial Services Board (IFSB) has commenced work on establishing liquidity and stress-testing standards for Islamic institutions. This work is still in its early stages and exposure drafts would not be expected prior to late 2011. However, through our participation in the relevant working groups we will be aware of the IFSB's proposals in the early stages of the standards' development. Our expectation is that these standards will mirror those set by Basel. Accordingly, we should co-ordinate our efforts in implementing the conventional and Islamic solvency standards where possible.

Insurance

The IAIS has committed to developing a cohesive set of standards and guidance on solvency assessment with an overall objective of facilitating greater comparability and improved convergence over the long-term of supervisory practice towards a risk based solvency programme. This has been a gradual process because of the diversity of existing standards and the difficulty of securing consensus. Material outcomes from this initiative are not anticipated until the end of this year. Meanwhile, European countries are expected to implement Solvency II, of which the IAIS standards will probably be a generalisation, by the end of 2012. As significant work will be underway in 2011 on reviewing our PIB* Module, a review of our PIN** Module is unlikely to commence until 2012, when we have an implementation of Solvency II to guide us.

Accounting Standards

The G20 Leaders have called on international accounting bodies to increase their efforts to achieve a single set of global accounting standards by June 2011. Progress continues to be made in widespread global adoption of the International Financial Reporting Standards (IFRS).

We should continue to monitor the IASB's developments through its publication of exposure drafts and our commitment to the Asian-Oceanian Standard-Setters Group (AOSSG). However, it is likely that the impact of these developments on our prudential regime will be expressed through the standards of the prudential standard-setters.

Over-the-Counter (OTC) Derivatives

G20 Leaders have agreed that all OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties (CCPs) by the end of 2012.

To support implementation of these objectives, in April 2010 at the initiative of the FSB, a working group led by the Committee on Payment and Settlement Systems, IOSCO and the European Commission was formed to assess and set out policy options for promoting increased use of standardised products and for developing a clear process to implement at the global level mandatory clearing and exchange or electronic trading requirements. IOSCO has also recently formed a task force on OTC Derivatives Regulation.

* Prudential requirements for Investment, Insurance Intermediation and Banking Business.
** Prudential requirements for Insurance Business

In October, the FSB approved a report from its working group containing recommendations to increase the standardisation of products and to require clearance through CCPs, trading on exchanges or electronic platforms (where appropriate) and transactions to be reported to trade repositories.

The new Basel standards raise the capital requirements for OTC derivatives and provide capital incentives for banks to use CCPs for OTC derivatives.

Credit Rating Agencies

Initiatives are ongoing to strengthen oversight of credit rating agencies (CRAs). IOSCO has recently created a new Core Principle requiring CRAs, whose ratings are used for regulatory purposes, to be subject to registration and ongoing supervision. There is, however, some international debate about the form of supervision, and the FSB has expressed concern about the divergent approaches being taken around the world. We shall need to consider CRA regulation, but it would be advisable to allow a little time for the international situation to settle.

The FSB recently endorsed principles to reduce reliance by regulators and financial institutions on CRA ratings, which are considered inadvertently to contribute to financial instability. Standard-setters and regulators have been tasked by the FSB to determine the next steps required to translate the principles into policy approaches.

Miscellaneous

Other regulatory developments, such as those in relation to short selling and structured financial products, may arise during 2011-2012. However, our consideration of these is not anticipated to be resource intensive.

Post 2011-12 Developments

IAIS: Common Framework for insurance groups

The IAIS Executive Committee has agreed to develop a common framework to better supervise internationally active insurance groups and their group-wide risks.

The work plan provides for the development of approaches to better monitor group structures, group business mix and intra-group transactions with a view to identifying risks and establishing safeguards where necessary. The framework will set out quantitative and qualitative requirements, provide a platform for supervisory co-operation and interaction, and facilitate wide implementation.

A concept paper is planned to be ready for consultation in the first half of 2011 and the full framework by 2013. This will be followed by impact assessments.

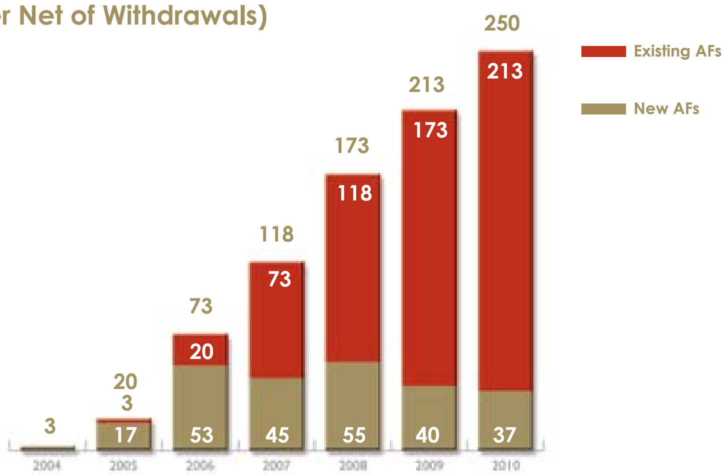
DIFC ENVIRONMENT

Firms

The number of Authorised Firms (AFs) in the DIFC grew throughout the global financial crisis despite the strained economic and financial conditions in the Emirate. This would seem to reflect the Centre's role as a hub for the region, whose economic performance was relatively robust during the crisis. The number of withdrawals did increase sharply in 2009 and remained elevated in 2010, though in both years withdrawals were more than offset by new Authorised Firms. Most of the withdrawals were concentrated among smaller regional Firms. As of end-2010, there were 250 Authorised Firms in the DIFC, including seven Representative Offices.

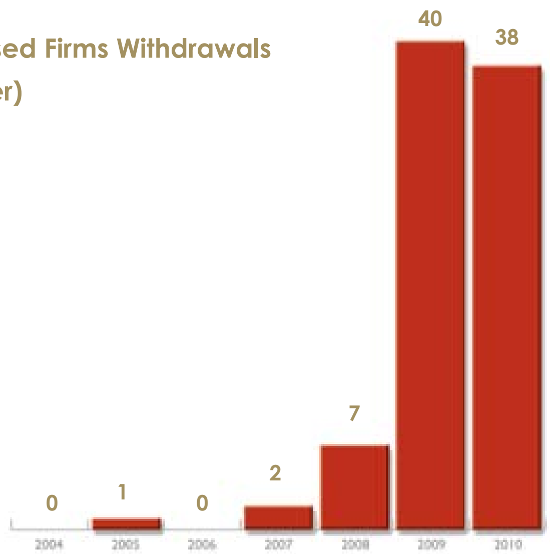
Stronger growth in Firm population is anticipated in 2011 though there is greater uncertainty for 2012. Increased applications are expected to be supported by the reinforcement of Dubai's role as a preferred hub for GCC and MENA region activity, improvements to our regulatory regime (e.g. the revised funds regime), regulatory uncertainty in other jurisdictions and the quality of life offered in the Emirate. The expansion in numbers is, however, likely to be more moderate than immediately prior to the crisis. This is in keeping with the growing maturity of the Centre.

Authorised Firms
(Number Net of Withdrawals)



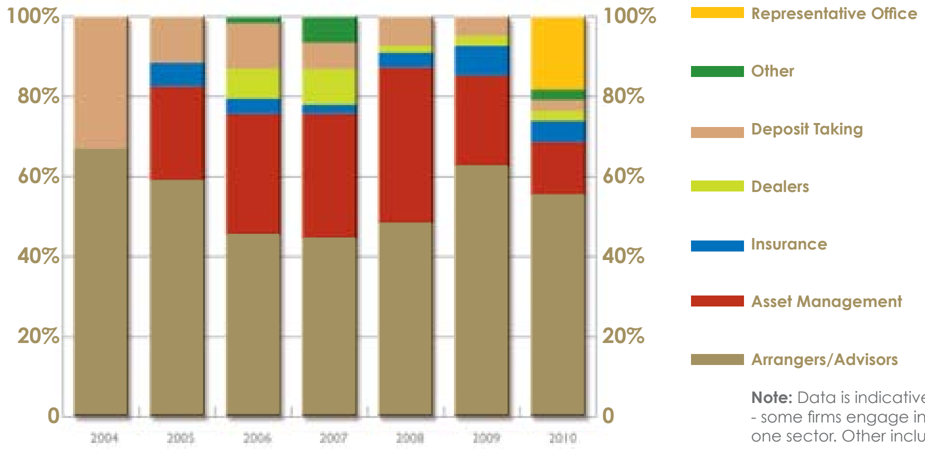
Note: DIFC opened in September 2004

Authorised Firms Withdrawals
(Number)



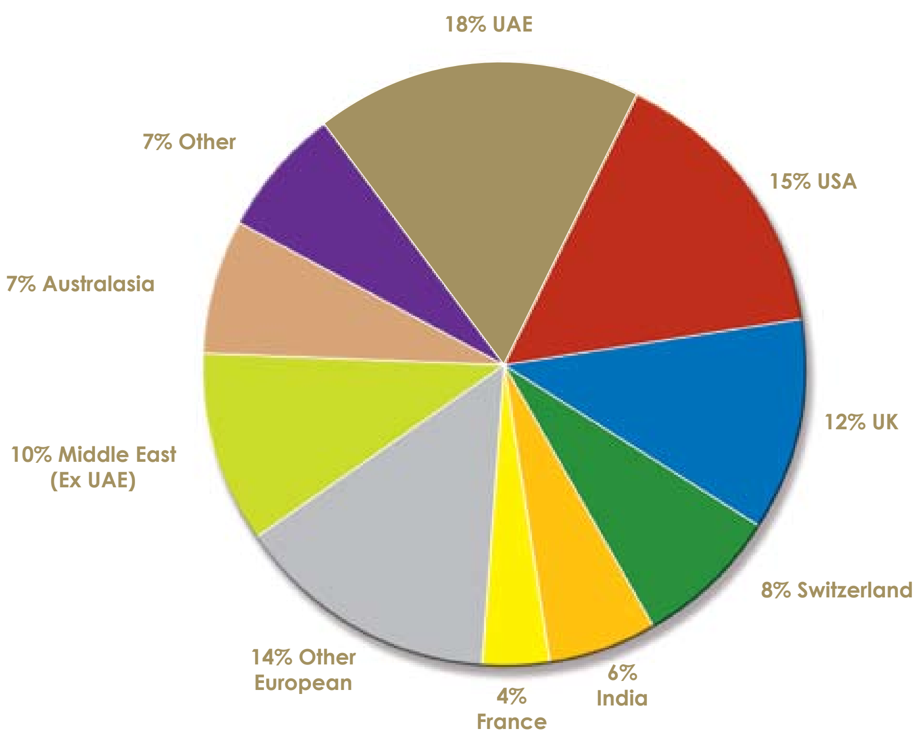
Currently, asset management, arranging and advising remain the most common financial sectors for Authorised Firms. Unsurprisingly, given the international nature of the DIFC, most Authorised Firms are owned outside the UAE. After the UAE, the leading home countries by ownership are the United States of America (USA), United Kingdom (UK), Switzerland, India and France in that order. Other European countries, dominantly in Western Europe, collectively have a strong presence, and there is some penetration into Asia. There are only five Firms from the whole of Africa (including Egypt), and one from Latin America.

Newly Authorised Firms by Sector



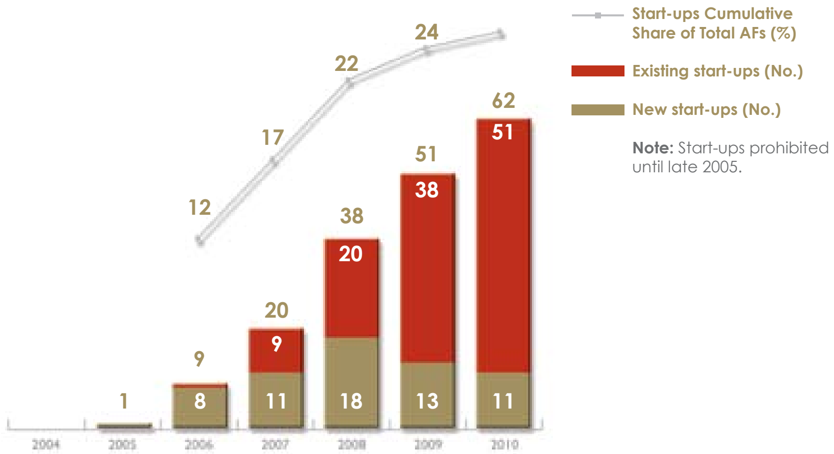
Note: Data is indicative only - some firms engage in more than one sector. Other includes trust services and credit providers.

Authorised Firms by Ownership (Share of Total %)



Start-up Firms, that is newly-established Firms, or Firms with no previous regulatory history, now account for one quarter of all Authorised Firms. In 2010, they accounted for 30% of all new authorisations. The gradually rising presence of start-ups increases the risk profile of the Centre and could potentially result in increased demands on DFSA resources.

Start-up Authorised Firms (Net of Withdrawals)



It would be natural for investigations and enforcement activity to rise as Firm activity increases. The recent period of financial stress may also have led to an increased level of malpractice in Firms.

Markets

The DIFC hosts two exchanges, NASDAQ Dubai and the Dubai Mercantile Exchange (DME). For NASDAQ Dubai, trading activity remains at relatively low levels. The outsourcing of NASDAQ Dubai back office operations for equities to Dubai Financial Market (DFM) is intended to boost retail investor activity, though there remain uncertainties.

Further consolidation among UAE exchanges has become more probable. Publicly available reports indicate that a study has been commissioned on the possible merging of DFM and Abu Dhabi Exchange (ADX). The Emirates Securities and Commodities Authority (SCA) has introduced mandatory corporate governance guidelines for firms listed on those exchanges. This, together with the possible MSCI upgrading of UAE markets to 'emerging markets' in mid-2011 could attract greater foreign investment in UAE exchanges.

The DME is enjoying higher levels of trading activity on its flagship contract, (deliverable) Omani Crude Oil Futures. Trading activity, measured by value, volume and open interest reached record highs in 2010. The adoption of the flagship contract as a pricing benchmark for another national oil company would likely generate a critical mass of interest in the contract and consequently, activity on the exchange.

DIFCA Strategy

The DIFC continues to build on its reputation as the leading financial hub in the region, despite the challenges posed by the global financial crisis on the domestic economy. In response to those challenges, DIFCA has refocused its strategy on developing the Centre's contribution to economic growth in Dubai and more broadly, the UAE.

Key elements of the strategy include deepening and broadening the activities of existing Firms, sourcing new firms from fast-growing emerging markets (notably the MENA and Asian regions) and developing specific segments such as wealth and asset management. This will influence the DFSA, especially in developing its relationships with regulators in the jurisdictions from which new firms are likely to come.

DFSA STRATEGIC THEMES *for* 2011/2012

DFSA STRATEGIC THEMES *for* 2011/2012

The DFSA has identified four strategic themes to drive our work over the course of the next two years. Each of these themes is divided into particular areas of focus which details some of the more significant actions we anticipate to undertake. These actions are aligned with the DFSA risk appetite and follow from our understanding of developments in the DIFC, economic backdrop and global regulatory agenda.

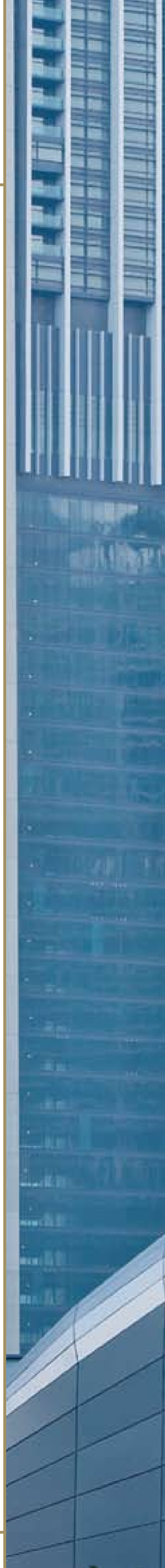
First Strategic Theme: Quality

The pursuit of our regulatory objectives in a growing Centre, with the effects of the financial crisis still playing out, will demand high quality in all our regulatory and support functions. We need to protect our independence of action and to conduct all our regulatory responsibilities to the highest standards, with a proper focus on risk within the relatively conservative risk appetite of our Board. Our regulatory regime needs to keep pace with international developments and with changes in financial markets. The combination of continuing modest growth in the number of Firms regulated, the increasing maturity of the regulated population, and the need to evaluate and absorb major changes in the international regime will require us to recruit and retain regulatory staff with substantial relevant experience (including in some cases recent experience of financial markets). We shall also need to develop and update the skills of existing staff.

Some of the emerging international standards will require skills which we do not currently have in-house. In some cases, we may need to make targeted hirings. More generally, however, as a small regulator we cannot expect to have in-house all the skills we may require from time to time, so we need to have access to such skills externally when needed.

1. We shall authorise and supervise regulated entities in a risk-based, efficient and proactive manner. This forms a key part of our business-as-usual activities and fulfilment of our statutory objectives. As part of our supervisory activity, we shall conduct a number of theme reviews, possible topics including consumer protection and suitability, market conduct by Firms engaged in trading activities, business contingency planning, and corporate governance. We shall continue to calibrate both our regime and our licensing and supervisory activity against our changing perception of risks, and the risk appetite of our Board.

2. We shall develop and maintain both core and specialist skill sets. The quality of regulation within the Centre is directly linked to the capability of our regulatory and support staff. The DFSA retains a strong commitment to the continued professional development of staff through a wide range of education and training opportunities. Related to this, the development of regulatory skills among Emiratis remains a priority. Graduates from our Tomorrow's Regulatory Leaders (TRL) Programme account for a growing share of DFSA staff and are making increasingly important contributions. For specialist skills (e.g. forensic auditing) that may not be readily available within an organisation of our size, there may be a requirement for outsourcing.



3. We shall continue to upgrade our infrastructure, especially our information technology. Improvements will be made on a continuing basis to our hardware and software to enhance staff productivity and effectiveness in both support and regulatory functions, and to ensure its continuing resilience and security.

4. We shall continue our rolling review of the Rulebook. Reviews are carried out by cross-DFSA teams of elements of the regulatory regime to ensure alignment with our risk tolerance, changes within DIFCA, regulatory best practice and of course, international standards. These reviews normally result in proposals to change the DFSA-administered Laws and Rules, which are issued for public consultation. Some reviews related to international standards are mentioned below, but there will be others including a review of our various sets of rules on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) with a view to better alignment, and a review of our supervisory powers, and our powers of intervention, to check whether there are any deficiencies.

TOMORROW'S REGULATORY LEADERS PROGRAMME

The TRL training and development programme is the flagship programme of the DFSA for the development of UAE National university graduates to become regulators. Our emphasis is on producing world-class regulators to join our existing employee cadre and more generally, to support the development of regulatory skill sets in the UAE.

Eight Associates from our first three intakes have become Managers upon their graduation from the programme, taking up positions in Supervision, Markets and Enforcement Divisions. We have welcomed another ten Associates to the programme in 2009 and 2010 and will continue to develop and recruit to the programme. The DFSA will also host two scholarship students for a two-month education programme in 2011 during their university education.

Second Strategic Theme: International Engagement

The regulatory agenda is now being set at an international level, and the DFSA needs to be engaged with this, both to ensure that standards take proper account of the needs of jurisdictions like our own and to ensure that we have the knowledge to implement the standards as they emerge. Our involvement in this process, despite our small size, depends on the quality of our staff, on the thought leadership we can exercise and on our respect as a credible and effective regulator. The international standards agenda has been the dominant driver of the rule and process reviews we plan to conduct over the period.

1. We shall review our rules to ensure alignment with evolving international standards. Significant DFSA resources will be dedicated to the review and implementation of a number of new standards. Particular focus will be on new capital and liquidity requirements from the BCBS ('Basel III'), giving initial priority to Pillars 2 and 3. We shall also review our regime against the revised Core Principles for securities and

insurance from IOSCO and the IAIS respectively. Depending on the timetable for the BCBS's work, we may also have new Core Principles for banking. Other important standards developments which we shall need to consider include work on corporate governance (including remuneration) from several of the standard-setters, Islamic finance standards, including those on Shari'a governance, and the IOSCO work on the supervision of credit ratings agencies.

2. We shall maintain assessments of our alignment with international standards. We shall keep up to date our internal evaluations of our regime against IOSCO, BCBS, IAIS and Financial Action Task Force (FATF) requirements. This will help to ensure our preparedness in the event of the IMF/World Bank conducting an FSAP in the UAE in the plan period.

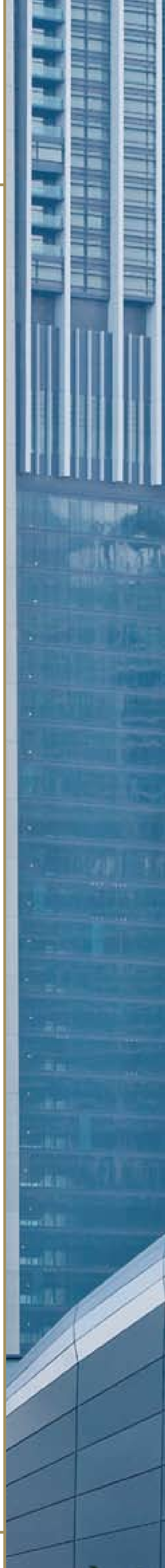
3. We shall monitor and engage with international standard-setters and promote standards development. International regulatory agendas are wide-ranging and our resources are limited, thus our engagement efforts will target issues of relevance to the supervised population of the DIFC. We shall remain engaged with the BCBS, IAIS and IOSCO and continue our intensive engagement with the Islamic finance standard-setters. Our more recent involvement with accounting and auditing standards bodies, notably AOSSG and the International Forum of Independent Audit Regulators, will increase our influence over standards development in these areas.

Third Strategic Theme: Collaboration with other regulators, both within and beyond the UAE

The financial crisis has demonstrated how rapidly systemic or group risks can cross jurisdictional boundaries. The international community is responding to this through greater emphasis on collaboration and exchange of information both ad hoc and through structured mechanisms like supervisory colleges. We need to be active and engaged collaborators and, partly as a means to this end, to be seen as an intelligent and respected regulator, with whom our fellow regulators are happy to deal. One particular focus is the development of our relationships with other UAE (and to some extent GCC) regulators, and establishing an understanding of the DIFC's place in the UAE economy and of our own place in the UAE regulatory community.

1. We shall grow our relationships with relevant DIFC, UAE and regional regulatory communities. Within the Centre, we shall continue developing strategic relationships with the Office of the Governor, DIFC Courts and DIFCA.

Outside the Centre, the focus will be on UAE regulators and, to a lesser extent, GCC regulators. We seek to further strengthen our liaison with the Central Bank of the UAE, SCA and the UAE Insurance Authority. This is expected to occur via increasing active collaboration and the continuation of our regular meetings with the Central Bank of the UAE and the SCA.



Our outreach to the regulated community and its advisers will also intensify. We already run various outreach sessions, and in 2010 added a series on DFSA enforcement powers and remedies which we shall continue. We shall also continue to participate in sessions organised by DIFCA and by industry groups.

2. We shall build relationships with relevant international regulators to support our supervisory responsibilities. The heavy presence of branches and subsidiaries within the Centre means that we need to devote substantial resources to maintaining and improving our standing with important home state regulators (e.g. USA, UK and Switzerland), complementing the MoUs we already have in place to facilitate regulatory co-operation. We shall also be responsive to the revised DIFCA strategy, which will require us to develop closer relations with regulators in other jurisdictions which may have a growing presence in the DIFC (e.g. India, China and Turkey). The DFSA will actively participate in relevant supervisory colleges and may more frequently act as a lead regulator given the growing role of the Centre as a hub for MENA operations.

Fourth Strategic Theme: Anticipation

We need to be forward-thinking in our regulation. Where possible, we should anticipate problems in regulated entities, and when problems come to our notice we should react to them speedily. We propose to develop our market surveillance capability, which in this context refers to the use of market information to detect possible stresses within the financial services industry we regulate. We need to build capacity to identify new products and structures that may impact on our market and to consider the appropriate regulatory oversight. We shall also need to assess the implications for our regulatory regime of the exchange technology developments. We should continue to be thought leaders in identifying and analysing the possible regulatory issues of the future, and should also identify how regulation might appropriately support the new DIFCA strategy.

1. We shall improve our supervisory surveillance capacity. To enhance existing monitoring and analysis of our supervised Firm population, a set of tailored Management Information System (MIS) reports will be developed and generated on a regular basis. The use of industry-wide benchmarking will be of particular benefit in identifying 'outlier' Firms in terms of regulatory risks. Another element, which also relates to the strategic theme of 'Quality,' is the development of the necessary skills to understand and respond to risks posed by innovative financial products and services. Refinements to our internal knowledge management systems are intended to support the timely identification of such products and services and the sharing of that information amongst relevant staff.

2. We shall continue our pursuit of thought leadership. We will communicate both locally and internationally our thinking on actual and anticipated regulatory developments, with particularly emphasis on funds regulation, Islamic finance, corporate governance, auditing, etc. Further, we will continue to strive to advance thinking on home-host regulatory requirements and arrangements.

ISLAMIC FINANCE

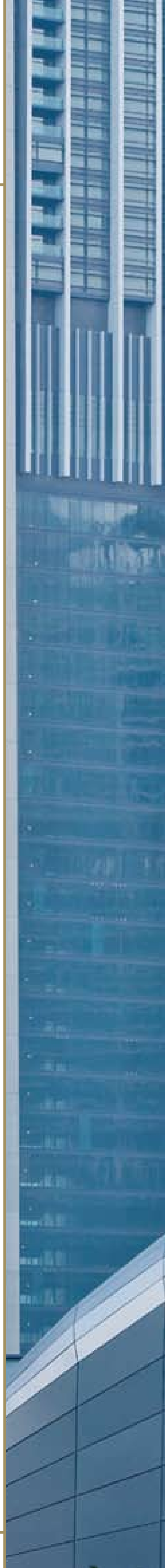
Islamic finance is an important area of development for the DIFC. The DIFC's aim is to become a broadly-based, and eventually global, financial centre, rather than a niche player. However, Islamic finance will necessarily be important to the Centre, partly because of the needs of the region it serves, and partly because of its potential to give the Centre a strong distinguishing feature from other international centres.

The Centre's development will take place against a background of increasing interest in Islamic finance by existing conventional firms. This is a natural response to its development as a mainstream option, since many such firms will want to be able to serve a full spectrum of customers. It may, however, lead to some tensions between these firms and the established fully Islamic groups.

The new standards architecture will also impact on Islamic finance. Increased pressure for uniform global standards leaves less room for local variants and creates pressure either for Islamic finance standards acknowledged within the architecture headed by the FSB, or for assimilation to conventional standards. At the same time, growth in Islamic finance brings it increasingly to the attention of the conventional standard-setters. This will pose challenges to the existing Islamic standard-setters, the IFSB and Accounting and Auditing Organisation for Islamic Financial Institutions.

These trends and uncertainties increase the need for the DFSA to monitor and contribute to standards activities, wherever they take place.

They also interact with the strategy of DIFCA towards Islamic finance. This is likely to be based partly on encouraging existing firms to develop or relocate their Islamic finance activities here, and partly on bringing in new firms with a business proposition similar to that for conventional finance, which depends largely on the attractions of Dubai as a hub. The latter proposition may be more attractive for firms which do not already have a base in the Gulf. The two taken together may suggest that the business will move more towards offshoots (whether subsidiaries or windows) of largely conventional firms. In such a situation, our approach of Shari'a systems regulation is likely to be a strength, because of its ability to accommodate firms with different approaches in their home markets, as is consistency of regulation between conventional and Islamic firms facing similar risks. We intend to draw on industry expertise in defining our own regulatory strategy in this area.



PROGRESS AGAINST *the* BUSINESS PLAN

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Each year, the DFSA publishes an Annual Report, which highlights the DFSA's activities and achievements over the past year. The Annual Report is, in essence, a progress report against the Business Plan.

In addition to the Annual Report, The DFSA in Action is a bi-annual publication that reports on regulatory developments and DFSA activities.

On an ongoing basis, the DFSA publishes updates and media releases on its website. All DFSA publications are available, in both English and Arabic.

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