



ANNUAL REPORT 2012



Article 11 of the Dubai International Financial Centre (DIFC) Regulatory Law, DIFC Law No 1 of 2004, requires the Dubai Financial Services Authority (DFSA) to provide His Highness Sheikh Maktoum Bin Mohammed Bin Rashid Al Maktoum, the President of the DIFC with a written report on the exercise of its powers, performance of its functions and financial activities. The report is to be prepared as soon as reasonably practical in each financial year and to relate to the previous financial year. This is the DFSA's ninth annual report. It relates to the financial year ended 31 December 2012.

Log onto www.dfsa.ae for more information about the DFSA.



The DFSA is the independent regulator of financial and ancillary services conducted in or from the DIFC, a purpose-built financial free-zone in Dubai, the United Arab Emirates (UAE).

The DFSA's regulatory mandate includes 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.

In addition to regulating financial and ancillary services, the DFSA is responsible for supervising and enforcing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) requirements applicable in the DIFC. The DFSA has also accepted a delegation of powers from the DIFC Registrar of Companies (RoC) to investigate the affairs of DIFC companies and partnerships where a material breach of DIFC Companies Law is suspected and to pursue enforcement remedies that are available to the Registrar.



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.



CONTENTS

2012 Highlights	1
Statement <i>by the</i> Chairman	2
Statement <i>by the</i> Chief Executive	8

WHO WE ARE

DFSA Governance Model	14
DFSA Objectives and Principles	15
DFSA Board	17
DFSA Board Committees	26
DFSA Executive	34

WHAT WE DO

DFSA Organisational Structure	42
Key DFSA-Wide Initiatives	44
2012 Divisional Initiatives	45
2012 Key Performance Statistics	62

APPENDICES

64



2012 HIGHLIGHTS



2012 HIGHLIGHTS

- His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President and Prime Minister and Ruler of Dubai, visited the DFSA and met with the DFSA Board and discussed DFSA's strategy and engagement with regulatory bodies around the world.
- His Highness Sheikh Mohammed Bin Rashid Al Maktoum, in his capacity as Ruler of Dubai, enacted amendments to the DIFC Law No 1 of 2004 (Regulatory Law 2004), under which the regulation of DIFC's AML and CFT requirements for Designated Non-Financial Businesses and Professions (DNFBP) in the DIFC was transferred from the DIFC Authority (DIFCA) to the DFSA. His Highness also enacted three DIFC Laws namely the Markets Law 2012, the Regulatory Law Amendment Law 2012 and the DIFC Laws Amendment (No 2) Law 2012.
- The DFSA Board appointed Ian Johnston as the next Chief Executive of the DFSA, succeeding Paul M Koster.
- The DFSA commenced an action in the Financial Markets Tribunal (FMT) following the refusal of an an Authorised Firm (AF) and its Auditors to pay fines imposed by the DFSA for rule breaches. The matter was finally settled in the FMT by consent orders whereby the Firm and their Auditors, inter alia, paid a penalty to the DFSA, paid all the DFSA's costs and the AF restated its accounts. The DFSA also successfully defended an associated appeal to the DIFC Court made by the same Firm. This was an important case which confirmed that all proceedings in the FMT were to be heard in public.
- The DFSA became a signatory to a Memorandum of Understanding (MoU) between members of the International Organisation of Securities Commissions (IOSCO's) Africa and Middle East Regional Committee (AMERC).
- The DFSA entered into a supplementary agreement on co-operation with the China Banking Regulatory Commission (CBRC).
- The DFSA entered into a Statement of Protocol with the Public Company Accounting Oversight Board (PCAOB), of the United States (US).
- The Regulatory Appeals Committee (RAC) unanimously upheld the DFSA's decisions to withdraw the Licenses and Authorisations of an AF and the Authorised Individual (AI) status of the Firm's Directors.





STATEMENT *by the* CHAIRMAN

STATEMENT *by the* CHAIRMAN



As the year comes to a close, I am encouraged by the vibrancy of activity in the DIFC. The number of Firms seeking to establish a presence in the Centre, and in the process of doing so, has increased again markedly. Many of those already established here are expanding, broadening and deepening their activities.

Dubai is increasingly recognised as the region's leading international financial hub. We are privileged to have this opportunity to shape the financial landscape of the region and beyond. The DFSA has made great strides in developing a body of legislation and rules which matches high international standards and at the same time meets the needs of our regulated community.

Our surveys indicate that the DFSA is held in high regard by our key stakeholders. Without compromising on regulatory standards, we seek to be as "user-friendly" as we can and to be responsive to the needs of our financial services industry. We work closely with the DIFCA to deal with common issues and to align our respective strategies.

In his report, which follows mine, our Chief Executive, Mr Ian Johnston, describes our operational focus during 2012. I would like to mention just a few of the matters which have particularly occupied the attention of the Board.

Tomorrow's Regulatory Leaders (TRL) Programme - Our programme for preparing our future generation of financial services regulators received an important accolade in February. It was our honour and privilege to welcome His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai; His Highness Sheikh Hamdan Bin Mohammed Bin Rashid Al Maktoum, Crown Prince of Dubai; His Highness Sheikh Ahmed Bin Saeed Al Maktoum, President, Dubai Civil Aviation Authority; Chairman, Dubai Airports; Chairman and Chief Executive, Emirates Airline and Group; and other dignitaries to the DFSA. They met our TRL Associates and the delegation expressed positive sentiments regarding the programme and the training of UAE Nationals.

International Relations - None of our regional and international engagements could succeed without clear demonstration of our commitment to the development, administration and enforcement of world-class regulation. To that end, the DFSA's Chief Executive and I travelled with our Board colleagues Mr Robert Owen and The Hon Apurv Bagri to Beijing, Hong Kong and Singapore in May and met with senior government officials, financial regulators and industry leaders. This visit coincided with our participation in the annual conference of IOSCO in Beijing, where we also entered into a supplementary agreement on co-operation with the CBRC. It is important for us to have regular dialogue with our counterparts in other jurisdictions,

STATEMENT *by the* CHAIRMAN (CONTINUED)

enabling us to keep up with international market trends, regulatory developments and policy formulation. Both Hong Kong and Singapore are world-class financial centres with increasing international importance.

In July 2012, the Board held its annual overseas meeting in Frankfurt where they met senior regulators in the Federal Republic of Germany as well as regulators from the European Union (EU).

Board Performance - We believe that the high standards we expect from our regulated community should be reflected in our own performance. In January, Board members completed a 'performance effectiveness' internal review. Our self-assessment of performance as a Board and as Committees examines whether changes should be made to terms of reference or processes. In December this year we appointed an international firm of consultants to conduct an external Board effectiveness review for the year ending 31st December 2012.

New Chief Executive - Following a full international search process led by our Governance and Nominations Committee, the Board in June appointed Ian Johnston as our new Chief Executive. Ian joined the DFSA as a Managing Director in 2006, having been a Special Advisor to the Hong Kong Securities and Futures Commission. He is a regulator of international repute, having previously been (among other things) Chairman of the Joint Forum of international regulators. We are grateful to his predecessor, Paul Koster, who led the DFSA for over three years from 2008 to 2012, a challenging period for regulators everywhere.

Committee re-structure - In mid-year, the Board identified the need to reconfigure the Audit and Risk Committee into two separate committees, Audit and Risk respectively. 'Audit' is generally focused on the quality of financial management of the DFSA, and the quality of its internal risk management processes. 'Risk' is generally focused on assessing external risks (predominantly regulatory in nature) that could affect DFSA's reputation or ability to meet its regulatory objectives.

Board Composition - In July, the Board and I accepted the resignation of the Earl of Home (David Home). In line with good corporate governance and maintaining the proper relationship between the regulator and the regulated, he stepped down from the Board when Coutts & Co., of which he is Chairman, became a licensed entity in the DIFC in 2012. During his tenure with the DFSA, David has been an important Board member and brought valuable experience to our work, as well as being a good colleague.

I would like to express the Board's deep appreciation of the guidance and support received by the DFSA from His Highness Sheikh Maktoum Bin Mohammed Al Maktoum, Deputy Ruler of Dubai and President of the DIFC. His guidance and strong support ensure the continued success of the Centre.

STATEMENT *by the* CHAIRMAN (CONTINUED)

His Excellency Abdullah Saleh, Governor of the DIFC, has shown wisdom and leadership as he has ensured that the objectives of the Centre are achieved. I have also valued the co-operation received from my colleagues on the Higher Board of the DIFC, which co-ordinates the activities of the three main bodies in the Centre.

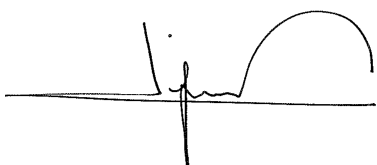
I would also like to express the Board's appreciation of the hard and effective work of the executive staff of the DFSA. We have a high-quality team, who have worked beyond the call of duty to deliver many excellent outcomes during 2012.

I know from our key stakeholders that the DFSA is held in the highest regard, I hope we give confidence and instil trust in those that are in the DIFC and importantly also to those that wish to establish operations in the Centre.

I am absolutely confident that the DFSA will maintain the high standards that we have set for ourselves and the regulated community for which we are responsible. The message we convey must be clear and well-articulated. We must be alert and agile, and our actions will be what measures our success or failure.

I wish to thank His Highness the Ruler of Dubai, Sheikh Mohammed Bin Rashid Al Maktoum, the founding President of the DIFC. His unwavering vision and support have provided both the blueprint and the foundation of the DIFC's success, from the past to the future.

In closing, I also wish to thank my fellow Board colleagues for their energy, enthusiasm, wisdom and seasoned support that guides all that we do, as well as everyone at the DFSA for their hard work and perseverance. Together we are achieving the DFSA's Vision to be an internationally respected regulator and a role model for financial services regulation in the Middle East.



Saeb Eigner
Chairman







STATEMENT *by the* CHIEF EXECUTIVE

STATEMENT *by the* CHIEF EXECUTIVE



This is my first report since assuming the position of Chief Executive mid-way through 2012. I am indebted to my predecessor, Paul Koster, and to the DFSA Board and staff for facilitating a smooth handover.

I believe 2012 will be remembered as something of a landmark year in terms of the financial services sector and its regulation. During the year we saw progress made on the agenda for enhancing regulation globally, with firmer measures being established for Basel III, for more common regulation of Credit

Rating Agencies (CRAs), proposals for central clearing of derivatives and, in the insurance sector, further work on developing a Common Assessment Framework (ComFrame) for large international insurance groups. We also saw further work on the treatment of Systemically Important Financial Institutions (SIFI's). While some of these measures remain subject to final agreement, there is a general view that the agenda on addressing the global financial crisis is being advanced. The DFSA, as part of its commitment to international standards, has been involved in the development of a good number of the international proposals and will implement them as appropriate for the DIFC. I say more about that below.

However, 2012 was also notable for a number of less favourable developments – here I speak of a series of revelations regarding unacceptable conduct in the financial services sector across a number of countries. The LIBOR scandal, failures in respect of AML systems and controls, together with examples of product mis-selling, reflected badly on the sector and its participants. I am of the view that holding a licence to provide financial services is a privilege and financial institutions large and small need to exhibit behaviour that recognises that privilege, firstly, by complying with the law, but also going beyond that and ensuring that they and their staff honour their wider obligations, particularly toward customers. And, those obligations must rank ahead of the short-term financial interest of the institution's staff or agents. Part of the answer is for financial services businesses to ensure that their reward and incentive mechanisms drive the right behaviour within them and on their behalf. I am firmly of the view that reward drives behaviour. It is only by addressing issues such as these, and considering the general and specific obligations that come with a financial services licence, that financial institutions will regain some of the trust that has been lost in recent times.

While we have not, in the DIFC, seen many of the more egregious examples of mis-conduct that has occurred elsewhere, the DFSA will, through the development of our Rulebook, our supervisory process and thoughtful use of our enforcement powers have a strong focus on conduct of business issues in 2013. Indeed, we will conduct a theme review to look at incentive and reward systems of the type I referred to above.

STATEMENT *by the* CHIEF EXECUTIVE (CONTINUED)

However, I also recognise the value of a close dialogue between the DFSA and our regulated population, as well as with professional services firms in the DIFC, and I hope that together, we can foster a culture that goes beyond mere compliance.

Returning to the international regulatory agenda, the DFSA implemented a number of measures in 2012 that maintain the DIFC's reputation as a well-regulated jurisdiction. We implemented a regime for CRAs and also revised our prudential requirements for banks and other firms in a way that is Basel III compliant. Another important initiative was our assumption of responsibility for all AML measures within the DIFC. This recognises our competency in this area and will create a more cohesive AML programme across the Centre.

We also introduced new requirements for corporate governance within our regulated population and updated our Markets Rules. All of these measures were introduced following consultation and aim to strike the right balance between regulation and allowing firms to conduct their business effectively and profitably.

It takes only a few moments reflection to confirm that 2012 was a very busy year, particularly in terms of Rulebook changes. Looking ahead to 2013, we will continue to benchmark ourselves to international standards. While this will continue to mean some regulatory reform, overall we hope to make fewer changes to our Rulebook and allow it to 'bed down' somewhat.

At the DFSA we have always believed that we need to be attuned to the strategic aims and objectives of the DIFC, receptive to comments from our stakeholders, and accountable for our actions.

In this regard we will continue to closely liaise with the DIFCA, the Government of Dubai and with our fellow regulators in the UAE. We will also continue to consult with industry and our wider group of stakeholders on all legislative changes and use whatever mechanisms we can to allow you to let us know what you think of our performance.

Finally, let me pay a big vote of thanks to my staff. I believe the DFSA has an excellent team and I am most grateful for their efforts in 2012.



Ian Johnston
Chief Executive

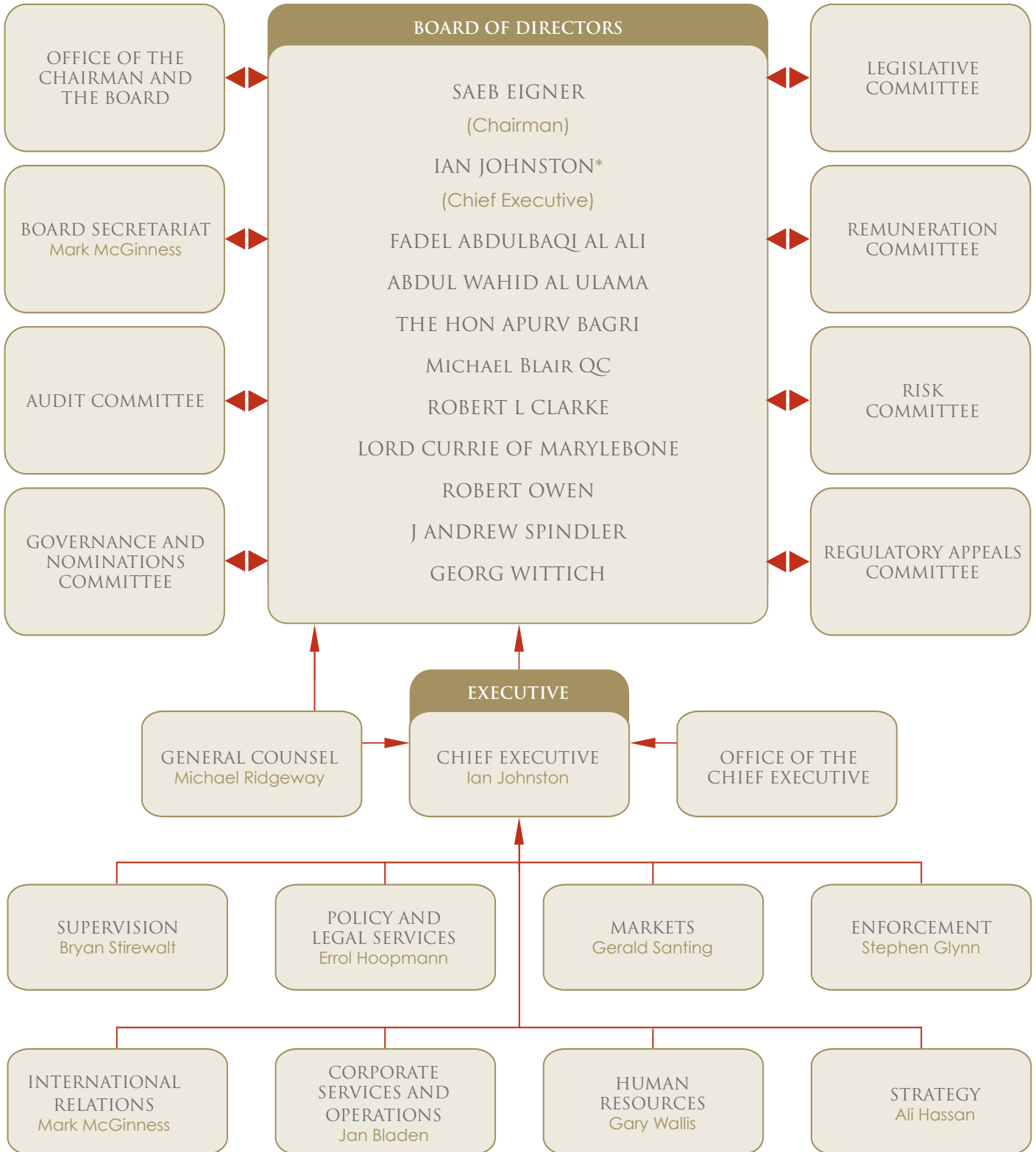




WHO WE ARE



DFSA GOVERNANCE MODEL



* Ex-Officio

As at 31st December 2012.

DFSA OBJECTIVES AND PRINCIPLES

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 cause damage 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; and
- To promote public understanding of the regulation of the financial services industry in the DIFC.

In aiming to establish and maintain an environment that supports the DIFC's guiding principles of integrity, transparency and efficiency, the DFSA has set uncompromisingly high standards in building a clear and flexible regulatory framework based on the best practices and laws of the world's leading financial jurisdictions. The result is clear and succinct legislation that is relevant to a modern international financial centre.

The DFSA strives to meet the applicable standards of leading international organisations such as the Basel Committee on Banking Supervision (BCBS), Financial Action Task Force (FATF), International Association of Insurance Supervisors (IAIS), Islamic Financial Services Board (IFSB) and IOSCO.

The DFSA actively participates in international organisations and contributes to their dialogue in areas such as financial services regulation, AML, compliance and Islamic finance regulation. This enables us to stay abreast of, and contribute to implementing, international best practices within the region.

VALUES AND ETHICS

The DFSA Values reflect the core DIFC operating principles of Integrity, Transparency and Efficiency. These are firmly embedded in the DFSA's rules and procedures and incorporated in the DFSA Code of Values and Ethics for employees.

The Code sets appropriate international best practice standards in relation to the use of regulatory information, conflicts of interest and the giving and receiving of gifts and benefits. It is designed to complement the conflicts of interest and confidentiality provisions in the Regulatory Law.

The Code includes procedures for the management of perceived conflicts and potential conflicts relating to close relationships between the employees and consultants of the DFSA and of other DIFC agencies.

The DFSA Board of Directors has adopted a similar Code of Values and Ethics appropriate for Members of the Board, Committees and Tribunals.

DFSA BOARD

An independent Board of Directors oversees the DFSA Chief Executive and his staff. This ensures a transparent separation of day-to-day regulatory activities from the oversight of the DFSA's regulatory performance.

The powers and functions of the Board under the Regulatory Law are to:

- Exercise the legislative powers of the DFSA;
- Appoint members to the FMT and the RAC, each of which exercises certain quasi-judicial functions;
- Ensure that the DFSA exercises its statutory powers and performs its statutory functions in accordance with its objectives;
- Make policies relating to the regulation of financial services and related activities;
- Make provision for the consideration of adjudication on and the application of penalties in relation to disciplinary and other matters;
- Review the performance of the Chief Executive;
- Give the Chief Executive directions;
- Arrange for the DFSA to enter into co-operation arrangements with other regulators;
- Review draft laws and recommend them to the President of the DIFC;
- Review and make Rules;
- Review and issue standards and codes of practice; and
- Make submissions to the President in relation to legislative matters outside the scope of its own legislative powers.

In exercising its general oversight of the DFSA's operations, the Board's role includes:

- Making strategic decisions affecting the future operation of the DFSA;
- Setting appropriate policies to manage risks to the DFSA's operations and the achievement of its objectives and seeking regular assurance that risks are managed in accordance with these policies;
- Maintaining a sound system of financial controls; and
- Providing an accountability mechanism for decisions made by Board committees through periodic reporting.

Members of the DFSA Board are leading legal, business and regulatory experts drawn from major international financial jurisdictions.

All Board Directors are appointed by the President of the DIFC for three year terms. In addition, all Board Directors have entered into a service agreement with the DFSA which details terms of appointment, duties, remuneration and expenses, confidentiality, conflicts of interest, term and termination and indemnities.

DFSA BOARD (CONTINUED)

As at 31 December 2012, the Board consists of 11 members and all but the Chief Executive are independent non-Executive Directors. The Board is supported by the Secretary to the Board of Directors and the General Counsel.

The DFSA has comprehensive Directors and Officers liability insurance cover which the Board considers adequate and appropriate. The policy excludes cover in the event a Board Director is proven to have acted in bad faith.

The Board, as required under the Regulatory Law, has appointed a RAC and an FMT. In addition to the RAC which is required by statute, the Board has established five committees to assist it in discharging its functions. These are the Legislative Committee (LegCo), Governance and Nominations Committee, Audit Committee, Risk Committee and the Remuneration Committee (RemCo). These committees form a solid platform for good governance, efficiency and policy formation.

Some committees include members who are not members of the Board, but have particular expertise that is helpful to the members of the committees, while the Chairman of the DFSA Board is an ex-officio member of all Board committees except the Audit Committee and the RAC.

DFSA BOARD (CONTINUED)

The following schedule shows Board member attendance at meetings during the year, with attendance (either in person or by teleconference) shown as a proportion of the number of meetings individual Board members were eligible to attend.

	BOARD	Audit and Risk Committee	Governance and Nominations Committee	Legislative Committee	Remuneration Committee	Risk Committee	Audit Committee
Saeb Eigner	7/7		3/3	7/7	4/4	2/2	
Paul M Koster	3/3		3/3	3/3	2/2		
Ian Johnston	4/4			4/4	2/2	2/2	
Abdul Wahid Al Ulama	7/7			7/7			
Fadel Abdulbaqi Al Ali	6/7	3/3			4/4		2/2
Georg Wittich	7/7	3/3		7/7			2/2
J Andrew Spindler	7/7	3/3	3/3		2/2	2/2	2/2
Lord Currie of Marylebone	7/7		3/3		4/4		
Michael Blair QC	6/7			7/7		2/2	
Robert L Clarke	6/7			6/7	2/2		
Robert Owen	6/7			6/7	2/2	2/2	
The Earl of Home	3/3	3/3	3/3				
The Hon Apurv Bagri	7/7	3/3	3/3		4/4		2/2

DFSA BOARD MEMBERS (as at 31 December 2012)

Saeb Eigner (Refer to page 4 for biography photograph) was appointed DFSA Chairman in August 2011. He served as Deputy Chairman of the Board since 2007 and a member of the Board since October 2004.

Mr Eigner was formerly a Senior Bank Manager in London (ANZ Grindlays Bank PLC), where he headed the Middle East and Indian Sub-continent Division of the Private Bank, which he left in the 1990's to found a private investment company (Lonworld), of which he is Chairman.

Mr Eigner holds a Masters Degree in Management from London Business School. He is a Governor of London Business School and Chairman of its Audit and Risk Committee.

He is a member of the World Economic Forum's Global Agenda Council. He is the co-author of the management books "Sand to Silicon" (2003) and "Sand to Silicon going Global" (2009) and author of "Art of the Middle East" (2010).

He holds and has held a number of senior Board appointments in the areas of banking, strategy, education, regulation, investment and culture.

Ian Johnston (Refer to page 10 for biography photograph) was appointed as Chief Executive of the DFSA in June 2012. Mr Johnston joined the DFSA in November 2006, as a Managing Director, to head-up the Policy and Legal Services Division.

He was admitted to practice Law in Australia in the early 1980's and spent most of his career in the private sector. He held a number of senior positions within the financial sector and was CEO of one of Australia's major Trustee Companies. During that time, Ian played a leading role in the Trustee industry and served on the National Council of the Trustee Corporations Association.

In 1999, Mr Johnston joined the Australian Securities and Investments Commission (ASIC) where he held the position of Executive Director, Financial Services Regulation, and spent several terms as an acting Commissioner. In 2005, he took up a position with the Hong Kong Securities and Futures Commission as a Special Advisor.

Mr Johnston is a past Chairman of the Joint Forum, which comprises representatives of the major international regulatory standard-setters (IOSCO, IAIS and the Basel Committee). He is a member of the Technical Committee of the IAIS, the global standard-setting body for insurance regulation, and is a member of the Board of Directors of the Financial Planning Standards Board.

DFSA BOARD (CONTINUED)

Fadel Abdulbaqi Al Ali is the Chief Operating Officer of Dubai Holding and the Acting Chief Executive Officer of Dubai Group.

Mr Al Ali sits on the Executive Committee of Dubai Holding. He is the Chairman of Dubai International Capital and is on the Board of Jumeirah Group, both being entities of Dubai Holding. He also serves on the Board of Emaar Properties PJSC, DU (Emirates Integrated Telecommunications PJSC) and Cyprus Popular Bank Public Co Ltd (earlier known as Marfin Popular Bank).

Mr Al Ali has considerable experience in the finance industry which includes several years at Citibank before his move to Dubai Holding.

Mr Al Ali graduated from the University of Southern California with a Bachelor of Science in Industrial and System Engineering. He also holds a Certificate of Finance from the American University of Sharjah.



Abdul Wahid Al Ulama is a partner with White and Case in their Global Merger and Acquisitions Practice. He is a certified arbitrator operating in Dubai registered with the Dubai International Arbitration Centre and the International Chamber of Commerce.

He is Board Member of Commercial Bank of Dubai PJSC since February 2012 and an independent non-Executive Director of the Dubai Gold and Commodities Exchange since August 2012.



Mr Al Ulama is a non-Executive Director and owner of Gulf Lenders Network and Emirates Conveyancing Group, two businesses that are engaged in the real estate sector in the UAE.

Mr Al Ulama has previously been a Partner with Al Tamimi & Company Advocates & Legal Consultants in Dubai and the Managing Partner of their associate office in Qatar. Thereafter, Mr Al Ulama was with Dubai World, initially as the Group Chief Legal Officer. He later assumed leading commercial roles within the Group including Executive Vice-Chairman of Dubai Natural Resources, the natural resources investment arm of Dubai World and Executive Vice-Chairman of Retailcorp World, the retail arm of Dubai World.

DFSA BOARD (CONTINUED)

Finally, before joining White and Case, he was a senior advisor, originations, at Mubadala GE Capital based in Abu Dhabi.

Mr Al Ulama graduated first in class with exception for his LLB degree from UAE University. Thereafter, he completed his masters in law in International Trade Law from the University College London.



The Hon Apurv Bagri is the President and CEO of the Metdist Group of Companies. The Group is involved in international non-ferrous trade and industry. He is a past Chairman and current Board Member of the International Wrought Copper Council which represents the global copper fabricating industry. He is Chairman of the Royal Parks Board. He is also Deputy Chairman of the Governing Body of the London Business School, a Commissioner of

the Crown Estate Paving Commission and a Trustee of Asia House. He is a Member of the Corporation, University College School.

He is the Honorary Rector and former Pro-Chancellor and Chair of Council of the City University, London and is a visiting Professor at Cass Business School. He is a past Chairman and current Board Member of TiE Inc, a global non-profit organisation that promotes entrepreneurship and wealth creation.

Mr Bagri is an Honours graduate in Business Administration from the Cass Business School in London and has an Honorary Degree of Doctor of Science from City University, London.



Michael Blair QC is in independent practice at the Bar of England and Wales, specialising in financial services law and practice, and having joined his Chambers in Gray's Inn, London in 2000.

For 13 years before that he held successive senior positions in regulation in the City of London, latterly as General Counsel to the Board of the Financial Services Authority of

the United Kingdom (UK FSA). He is a Member of the Competition Appeal Tribunal. He was until recently the President of the Guernsey Financial Services Tribunal, the Chairman of SWX Europe, the London arm of the Swiss Stock Exchange, and a Chairman of the Disciplinary Tribunal for the Bar of England and Wales.

DFSA BOARD (CONTINUED)

He was the Master Treasurer of the Middle Temple, his Inn of Court, in its quatercentenary year 2008.

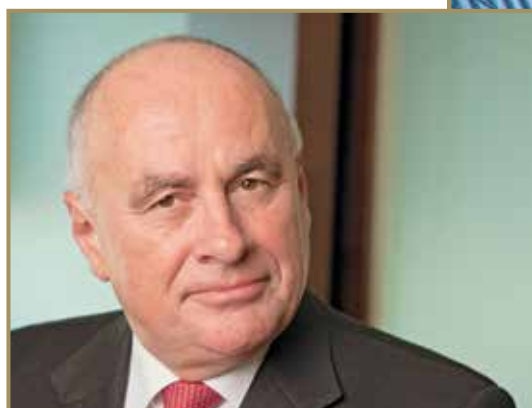
From 2000 to 2002, Mr Blair was the Chairman of the three recognised self-regulating organisations for the UK financial services industry: Investment Management Regulatory Organisation, Personal Investment Authority and Securities and Futures Authority. He served on the Bar Council for ten years, including four years as Treasurer from 1994 to 1998. He was given the award of Queen's Counsel (honoris causa) in 1996 and is the author and editor of a number of leading textbooks on UK financial services law.

Robert L Clarke has extensive experience with banking laws and regulations and bank supervision, both in the US and internationally. Mr Clarke founded the Financial Services Group at Bracewell & Giuliani, LLP in 1973. He was appointed by President Ronald Reagan as US Comptroller of the Currency (OCC) and at the end of his first term was re-appointed by President George H W Bush. He served as Comptroller from 1985 to 1992 and during his tenure the agency supervised about 5,000 nationally chartered commercial banks. During that time he also served as a Member of the Board of Directors of the Federal Deposit Insurance Corporation. In March 1992 he re-joined Bracewell & Giuliani LLP as Senior Partner and head of its financial services practice. Mr Clarke has served as a consultant and advisor to a number of countries on their bank supervisory operations.



Mr Clarke has an LLB from Harvard Law School and a Bachelor of Economics from Rice University.

Lord Currie of Marylebone has wide ranging experience in financial services, public administration and the education sector. He is Chairman of the International Centre for Financial Regulation and (from September 2012) the Chairman Designate of the Competition and Markets Authority, the new UK competition body to be formed from the merger of the Office of Fair Trading and the Competition Commission. As a result of this, he has stepped down from his UK business and other interests, including the Chairmanship of Semperian Investment Partners and directorships of the Royal Mail, BDO UK, IG Group and the London Philharmonic Orchestra.



DFSA BOARD (CONTINUED)

He was the founding Chairman of Ofcom, the converged UK regulator for electronic communications 2002 to 2009 and the Dean of City University's Cass Business School in the City of London 2001 to 2007. Formerly he was Deputy Dean at London Business School, a non-Executive Director of Abbey National, and on the Board of Ofgem, the UK energy regulator, and a variety of other government bodies.

His academic research has been in the area of regulation. He sits on the cross-benches in the House of Lords.



Robert Owen has wide-ranging experience as both a regulator and a market practitioner, with particular exposure to the Asia Pacific region. He established the Securities and Futures Commission (SFC) in Hong Kong and was appointed its Executive Chairman in 1989. Prior to this, Mr Owen was Director, Investment Banking, Lloyds Bank Group and Chairman and Chief Executive, Lloyds Merchant Bank. Earlier, he was a Director of

Morgan Grenfell & Co, and served in the UK Treasury and Foreign Office. Since leaving the SFC, Mr Owen has been Deputy Chairman of Nomura Asia Holdings Limited, and Senior Adviser to Nomura International (Hong Kong) Limited, a Member of the Council and Regulatory Board of Lloyd's of London, Chairman of Techpacific Capital Limited, Chairman of IB Daiwa Limited, a Director of Sunday Communications Limited, European Capital Co Limited and various other companies and investment funds. He is also a Board Member of Crosby Capital Limited, Singapore Exchange Limited and of Citibank (Hong Kong) Limited.

He is a Governor of Repton School in the UK and a Board Member of Repton School Dubai.

Mr Owen was educated at Repton School and Oxford University.



J Andrew Spindler is the President and CEO of the Financial Services Volunteer Corps, a not-for-profit private-public partnership whose mission is to help build sound banking and financial systems in transition and emerging market countries. Prior to his appointment in 1993, Mr Spindler served as a Senior Vice President at the Federal Reserve Bank (FRB) of New York, where he headed the Banking Studies and Analysis Function and Payments

DFSA BOARD (CONTINUED)

System Studies staff. While at the New York FRB, he helped develop the risk-based capital framework that has been adopted by bank supervisory authorities in most of the world's financial centres. He represented the New York FRB on the Basel Committee on Banking Supervision from 1991 to 1993. Prior to joining the New York FRB in 1985, Mr Spindler held several international lending and strategic planning positions at the Continental Illinois Bank. He served as a Fellow at The Brookings Institution from 1980 to 1983.

Mr Spindler has a PhD and MPA from Princeton University's Woodrow Wilson School of Public and International Affairs and a Bachelor's Degree in International Politics from Harvard University. He is a Member of the Council on Foreign Relations, the Bretton Woods Committee and the Foreign Policy Association.

Georg Wittich has extensive regulatory experience with financial markets, in particular, from a European perspective. He established the Bundesaufsichtsamt für den Wertpapierhandel (Federal Securities Supervisory Office) in Frankfurt and served as its President from 1994 to 2002. In 1998, Mr Wittich was elected Chairman of the Forum of European Securities Commissions which played a key role in developing common standards for European capital markets. In IOSCO, Mr Wittich was Vice-Chair of the Technical Committee and Chairman of the Internet Project Team. Prior to this, Mr Wittich held various senior posts in the Federal Ministry of Finance in Germany in the area of international finance and securities markets and he was Financial Counsellor at the German Embassy in Tokyo 1983 to 1987.



Mr Wittich graduated with law degrees from the University of Kiel and undertook additional studies at the Ecole Nationale d'Administration in Paris.

DFSA BOARD COMMITTEES

LEGISLATIVE COMMITTEE

LegCo assists the Board in discharging its policy-making and legislative functions, including the development of legislation and rules on the regulation of financial services conducted in or from the DIFC.

LegCo members are:

- Michael Blair QC (Chairman of LegCo)
- Abdul Wahid Al Ulama
- Robert L Clarke
- Robert Owen
- Georg Wittich
- Saeb Eigner *
- Ian Johnston *
- Michael Ridgeway *
- Errol Hoopmann *
- Ermanno Pascutto (External Committee Member)**

* *Ex-Officio*

** *Refer to the DFSA website for Mr Pascutto's biography.*

The composition of membership is mixed between non-executives and executive staff. This enables the committee to tackle issues about regulatory policy and the workability and user-friendliness of DFSA rules.

Decisions on the committee's workload are taken by the Executive, in consultation with the members. In many instances, agenda items present themselves, as they are related to international regulatory policy and standard-setting.

Once the agenda is set, the working methods involve three stages.

During stage 1, draft material proposed by the Executive is scrutinised and commented on by members in writing in advance of a meeting; thus, when the committee meets, the discussion between the members themselves and other executive staff is focused on the members' comments. Once approved by the committee, the relevant material is subject to public consultation.

Stage 2 is after the results of public consultation have been obtained. This process in stage 1 is then repeated, to refine the proposals in the light of the consultation.

Stage 3 is less intensive in that members vet the final proposals before sending them to the Board for adoption.

The work load is a heavy one, and the subjects covered this year are set out at pages 45 to 46. As described in those pages, the activity included proposing

DFSA BOARD COMMITTEES (CONTINUED)

changes to DIFC laws administered by the DFSA (to be enacted, if approved, by His Highness the Ruler of Dubai) as well as care, maintenance and improvement of the DFSA Rulebook (where the rule making authority is the DFSA Board).

Major achievements this year include the introduction of CRA rules (Conduct of Business (COB) module), the introduction, following Basel III, of a new module of prudential rules (Prudential - Investment, Insurance Intermediation and Banking (PIB) module), introduction of updated markets rules (Markets (MKT) module) and, at the time of writing, the DFSA is consulting on the updated rules for exchanges (Authorised Market Institution (AMI) module).

AUDIT COMMITTEE

The Board's decision to place Audit and Risk responsibilities in the hands of two separate committees reflects its increased focus on both areas. The primary function of the new Audit Committee is to assist the Board in fulfilling its oversight responsibilities regarding the financial management of the DFSA, the adequacy of its systems of internal controls and the quality of its internal risk management process. The Chairman and Chief Executive are not members of the Audit Committee.

Audit Committee members are:

- J Andrew Spindler (Chairman of the Audit Committee)
- Fadel Al Ali
- The Hon Apurv Bagri
- Georg Wittich

Over the course of 2012, the Audit Committee oversaw the completion of the External Audit covering the DFSA's 2011 Financial Statements and Accounts, and the beginning of the External Audit of the 2012 Financial Statements and Accounts. The committee implemented a comprehensive, targeted Internal Audit programme, including an independent audit of the Information Technology (IT) Security and Penetration, and the Human Resources (HR) function in conjunction with the oversight of RemCo. The committee also played a key role in shaping and approving the DFSA's 2013 budget proposal, and in establishing a separate trust to manage the funds for DFSA employees' End of Service Benefits. The committee actively monitored the DFSA's funding and cash balance throughout the year, and made appropriate recommendations as needed in this regard.

As part of its oversight of internal financial controls, the committee also reviews, on an annual basis, the operational authority matrix and the Finance Department's policies manual.

RISK COMMITTEE

The primary function of the Risk Committee is to assist the Board in identifying and assessing external, primarily regulatory, risks that could affect the DFSA's reputation or ability to meet its regulatory objectives, together with potential risk mitigation measures.

Risk Committee members are:

- Robert Owen (Chairman of the Risk Committee)
- Michael Blair QC
- J Andrew Spindler
- Saeb Eigner *
- Ian Johnston *

* *Ex-Officio*

The Risk Committee was constituted on 1 July 2012 and held two meetings during the year. The first of these considered and updated the analysis underpinning the Board's regulatory risk tolerance, which was then approved by the Board. The second meeting identified and considered the main external risks as a whole faced by the DFSA and the adequacy of actions being taken to mitigate such risks, in preparation for the DFSA's 2013 planning exercise.

GOVERNANCE AND NOMINATIONS COMMITTEE

The primary function of the Governance and Nominations Committee is to assist the Board in fulfilling its supervisory responsibilities in respect of the operations of the Board and its management, to identify individuals qualified to become Board Members, including the Chief Executive, to develop a succession programme and to develop and recommend to the Board a set of corporate governance principles.

Governance and Nominations Committee members are:

- The Hon Apurv Bagri (Chairman of the Governance and Nominations Committee)
- Lord Currie of Marylebone
- J Andrew Spindler
- Saeb Eigner *
- Ian Johnston *

* *Ex-Officio*

At the beginning of 2012, the Governance and Nominations Committee undertook an internal survey of Board effectiveness, including a review of its own performance and terms of reference. The committee and the Board have agreed that conducting such self-examinations on an annual basis helps prevent stagnation and keeps the Board vibrant.

DFSA BOARD COMMITTEES (CONTINUED)

During the year, the Governance and Nominations Committee was charged with finding and recommending a new Chief Executive. The committee retained an executive search firm to assist with conducting a global search. After considering a number of highly-qualified candidates, the committee recommended the internal candidate, Ian Johnston, the DFSA's Deputy Chief Executive. In June 2012, Mr Johnston assumed his new responsibilities.

In 2012, the Governance and Nominations Committee also undertook a comprehensive review and revision of the Code of Values and Ethics for Employees and Consultants and the corresponding Code applicable to members of the Board, Committees and Tribunals. As a result, the Board approved changes to both codes that made them significantly more clear and restrictive in regard to conflicts of interest.

At the end of the year, the committee negotiated an agreement with Egon Zehnder to conduct an external assessment of the Board and its committees. The results will be reported as a whole during the first half of 2013 to the Board, including a comparison to the results of previous external assessments undertaken by the DFSA Board.

REMUNERATION COMMITTEE

The primary function of the RemCo is to make recommendations that will assist the Board to discharge its responsibilities relating to human resources. The committee's remit includes matters concerning remuneration, performance and policies applicable to the DFSA's Board, Executive and staff.

Remuneration Committee members are:

- Lord Currie of Marylebone (Chairman of RemCo)
- Fadel Al Ali
- The Hon Apurv Bagri
- Robert L Clarke
- Saeb Eigner *
- Ian Johnston *

* *Ex-Officio*

During 2012, the DFSA Board approved amendments to RemCo terms of reference that expanded its oversight functions to include matters such as learning and development initiatives, succession plans, employment contract provisions and candidates being considered for positions as direct reports to the Chief Executive. Beyond its usual work in the area of remuneration, the 2012 substantive work of the committee included an external audit of the DFSA's HR Division and functions. The committee also oversaw the benchmarking and legal review of all HR policies.

REGULATORY APPEALS COMMITTEE

The RAC functions as an “internal” appeal mechanism for DFSA Executive’s regulatory decisions to ensure procedural fairness, objectivity and transparency. The law empowers the RAC to conduct a full merits review of Executive decisions under appeal. Hearings and decisions of the RAC are heard in public unless ordered otherwise. Decisions of the RAC may be reviewed by the DIFC Courts by way of judicial review on a point of law.

RAC members are:

- Georg Wittich (Chairman of the RAC)
- Michael Blair QC
- Robert Owen
- Abdul Wahid Al Ulama
- William F Kroener, III (External Committee Member)*
- Ermanno Pascutto (External Committee Member)*
- Nada Khneisser Zarka (External Committee Member)*
- Jayshree Gupta (External Committee Member)*

** Refer to the DFSA website for the biographies of Mr Kroener, Mr Pascutto, Ms Zarka and Ms Gupta.*

The RAC considered in 2012 an increasing number of appeals. At the beginning of the year, it decided three related cases filed in 2011. The Executive had withdrawn a company’s licence because of a finding that the company had been moving money among a series of accounts in an effort to make it appear that it was adequately capitalised, when in fact it was not. After a hearing and post-hearing settlement discussions, the RAC issued its Notices of Decisions in January 2012 which ultimately upheld the Executive’s decisions.

In May, an appeal was filed regarding a decision of the Executive to delist an issuer of Islamic Trust Certificates from the Official List of Securities. The RAC panel held a hearing in June, and in July it issued its decision upholding the Executive’s action.

In October, an appeal was filed by a company seeking to overturn the DFSA’s denial of an application for Authorisation. That appeal was pending at the close of the year and was scheduled to be heard by the RAC panel in early 2013.

FINANCIAL MARKETS TRIBUNAL

The FMT serves as an independent financial services disciplinary tribunal to determine breaches of DFSA administered legislation and related regulatory proceedings. It is broadly empowered with a remit and powers comparable to other international integrated financial services regulatory tribunals.

The FMT is operationally independent of the DFSA Board and Executive. Decisions on originating proceedings before the FMT may be appealed to the DIFC Court. Decisions of the FMT on appeals of Exchange decisions may be appealed to the DIFC Court on a point of law.

FMT members are:

- Stewart Boyd CBE QC (President of the FMT)*
- John L Douglas*
- Gavan Griffith QC*
- Ali Malek QC*
- David M Stockwell*

** Refer to the DFSA website for the biographies of Mr Boyd, Mr Douglas, Mr Griffith, Mr Malek and Mr Stockwell.*

In 2012, the FMT resolved two related cases brought by the Executive. The cases provided an opportunity to test the procedural and substantive fairness of the Tribunal, as an interim order of the Panel was appealed to the DIFC Courts. In a lengthy and well-reasoned opinion, the Court upheld the decision of the FMT, and the cases proceeded toward the scheduled hearing. Both cases ultimately settled just prior to the hearing on the merits, and the Panel approved the parties' agreed resolution.

The FMT's 2012 activity demonstrated the high calibre of the panel members and the integrity of the process. It also provides an opportunity for the Executive to consider whether improvements can be made regarding administrative proceedings, both in actions initiated by the DFSA and in appeals taken from decisions of the Executive.

NATIONALS AND TRL WORKING GROUP

During 2012, the Board created a Working Group to promote the development of UAE National employees and oversee the Tomorrow's Regulatory Leaders (TRL) Programme. The Working Group, which reflects the Board's commitment to creating a sustainable and well-trained workforce of UAE Nationals, seeks to build upon the TRL Programme's recognised status as a model for workplace education and development in the UAE and the wider region. The Working Group is made up of members of the DFSA Board, as well as the Dean of the TRL Programme and the DFSA's Head of HR.

Nationals and TRL Working Group members are:

- J Andrew Spindler (Chairman of the Nationals and TRL Working Group)
- Fadel Al Ali
- Abdulwahid Al Ulama
- Robert L Clarke
- Lord Currie of Marylebone
- Michael Ridgeway (Dean of the TRL Programme)
- Gary Wallis (Head of HR)

The Working Group concentrated its efforts during 2012 on identifying the broad matters on which it should focus, meeting with current and former members of the TRL Programme to solicit their feedback and input, and agreeing on steps that the DFSA could take in regard to its communications plan in order to appropriately position its HR development efforts in the local community.



DFSA EXECUTIVE

Ian Johnston - Chief Executive (Refer to page 20 for his biography and page 10 for biography photograph.)



Jan Bladen - Chief Operating Officer joined the DFSA in 2005. Mr Bladen's professional skills combine operational, strategic and consultancy experience at international levels. Prior to the DFSA, Jan spent eight years with PricewaterhouseCoopers (PwC) in Geneva and Dubai. He is a keynote speaker on the subjects of Corporate Governance and Risk Management and was one of PwC's lead experts on Enterprise Risk Management.

In 2011, Mr Bladen was the first accredited independent Board Director, in the Middle East, to be admitted to the Mudara Institute of Directors.

Mr Bladen holds an MBA (Summa cum laude) from Business School Lausanne.

He is a Governor of Abbotsholme School, England.



Peter Casey - joined the DFSA in 2002 as Director Insurance. Over the years his areas of responsibility were extended to include policy, Islamic finance and strategy. Mr Casey completed his tenure with the DFSA in June 2012 as Senior Director, Policy and Strategy, Head of Islamic Finance.



Stephen Glynn - Senior Director and Head of Enforcement, has extensive experience in the regulation of financial and capital markets, financial services and products and listed and unlisted corporate entities.

Mr Glynn's portfolio of responsibilities include enforcing obligations that apply to regulated entities in the DIFC, members of NASDAQ Dubai and Dubai Mercantile Exchange (DME) and Reporting Entities that list their products and make offers of securities in the DIFC. He is presently a member of IOSCO's Committee 4 which deals with Enforcement and the Exchange of Information.

DFSA EXECUTIVE (CONTINUED)

Mr Glynn was formerly employed in various senior positions with ASIC, having responsibility for various divisions including, Markets and Investments, Managed Investments, Financial Services Regulation, Corporate Investigations and Financial Analysis. He is a forensic financial analyst and a former member of the Investigations Committee of the National Council of Certified Practising Accountants Australia.

Before joining the DFSA, Mr Glynn was the Managing Director of Financial Services Compliance, a consultancy providing compliance and risk management services to the Australian financial services industry.

Mr Glynn has both Bachelors and Master degrees from Australian Universities.

Ali Hassan - Senior Director, Supervision, joined the DFSA in 2005 and was promoted to Senior Director in the Supervision Division in 2011. He is responsible for regulatory risk management looking at business priorities and leading strategic projects as well as licensing new Firms and the ongoing supervision of regulated entities.



Mr Hassan has 24 years of commercial and regulatory experience which includes six years at the UK FSA covering markets and investment firms and seven years at Bloomberg LP in London, initially in account management and subsequently as compliance officer and in-house lawyer.

Mr Hassan has degrees in Law and Microbiology, a post graduate diploma in E-Commerce from the University of London, and was called to the Bar in 1999. Ali holds the Securities and Investment Diploma in Investment Compliance and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

Errol Hoopmann - Managing Director, Policy and Legal Services, re-joined the DFSA as Managing Director, Policy and Legal Services, in September 2012 after a sabbatical. He is presently the Vice-Chair of IOSCO's Committee 4.



From 2009 until July 2011, he was General Counsel and Secretary to the DFSA Board. As General Counsel, he was the DFSA's senior legal adviser heading up the Board Secretariat. Prior to assuming this position, Mr Hoopmann was Director, Legal Services with primary responsibility for managing legal service delivery in the DFSA, including advising and legislative drafting. He originally joined the DFSA in 2003 as a Director in the Enforcement Division and in 2005 was given responsibility for policy formulation within the DFSA.

DFSA EXECUTIVE (CONTINUED)

From 2005 to 2008, he created and implemented the TRL Programme to equip UAE National graduates with knowledge and skills in all aspects of financial service regulatory practice, and acted as Dean of the programme for its first three years.

Before joining the DFSA in 2003, Mr Hoopmann was a Principal Lawyer at ASIC where he was responsible for the conduct of major enforcement activities. In 2001 and 2002, he was responsible for co-ordinating ASIC's response to the HIH Royal Commission which inquired into the largest collapse of a financial services institution in Australia's history.

Mr Hoopmann holds a Bachelor of Law and Graduate Certificate in Business Management. He is a Solicitor of the Supreme Court of Queensland and of the High Court of Australia.



Mark McGinness - Secretary to the Board joined the DFSA in August 2005 and is responsible for leading DFSA's role in international relations and co-ordinating its involvement with the international standard-setters. He is also responsible for the DFSA's network of MoUs and its commitment to cross-border co-operation. In April 2011, he assumed the additional role of Secretary to the DFSA Board and joined the Executive Committee of the DFSA.

Mr McGinness worked as a State Prosecutor before joining the Legal Division at ASIC in 1991. In 1993, he joined the Office of the Chairman in Sydney where he became a Principal Legal Officer in Enforcement. In 1998, he was appointed the inaugural Co-ordinator of International Enforcement and from 2001 he also undertook responsibility for International Relations. He was advisor to the Chairman of IOSCO's Technical Committee, ASIC's representative on IOSCO's Implementation and multi-lateral MoU taskforces and its enforcement standing committee. Prior to his appointment to the DFSA, Mr McGinness was ASIC's Director, International Relations.

Mr McGinness is currently a member of IOSCO's Assessment Committee and sits on the Supervisory Co-operation Sub-committee of the IAIS. He holds a Bachelor of Arts and a Bachelor of Laws (University of Queensland) and is admitted as a Barrister of the Supreme Court of Queensland and the High Court of Australia.

DFSA EXECUTIVE (CONTINUED)

Michael Ridgeway - General Counsel, joined the DFSA in June 2011 and is responsible for providing legal advice and counsel to the DFSA Executive and Board on matters that include corporate governance, ethics, statutory obligations, reporting and the liability of the DFSA. He is also Dean of the TRL Programme.



Mr Ridgeway has a wide range of experience as a legal advocate, consultant and educator, including 13 years as counsel at the Oklahoma Insurance Department. During his tenure as a US insurance regulator, Mr Ridgeway served as Vice-Chair of the National Association of Insurance Commissioners' Anti-fraud Task Force, and as Chair of the Federal and International Enforcement Co-ordination Working Group. He also represented the US at meetings of the IAIS' Market Conduct Sub-committee and the Insurance Fraud Group.

In addition, Mr Ridgeway has a range of experience in the private practice of law, including service to other attorneys as an expert witness and consultant in insurance-related litigation. He has also taught mediation, legal research and writing, appellate advocacy and legal ethics.

Mr Ridgeway holds a BA in Public Administration and a Juris Doctorate, both from the University of Oklahoma. He is admitted to practice in Oklahoma state and federal courts, two Native American tribal courts, the Tenth US Circuit Court of Appeals and the US Supreme Court.

Gerald Santing - Managing Director, Markets, joined the DFSA in June 2010 and has overall responsibility for the DFSA's regulation of NASDAQ Dubai, DME and other future exchanges that may receive Authorisation to operate within the DIFC.



Prior to this, he was Managing Director of the Netherlands Authority for the Financial Markets, responsible for markets oversight. He was directly involved in the implementation of the EUs Markets in Financial Instruments Directives in the Netherlands, and has been acting Commissioner of the Markets. He chaired the international regulatory task force that dealt with the approval procedures of the merger of NYSE and Euronext 2006 to 2007.

Mr Santing was the Managing Partner Financial Advisory Services at Deloitte (2000 to 2004), Board Member of Kamerbeek Group 1995 to 2000, CEO of the Mutual

DFSA EXECUTIVE (CONTINUED)

Insurance Company OLMA 1990 to 1995 and carried out several management positions at ABN AMRO 1975 to 1990.

Mr Santing holds a degree in Economics from the University of Amsterdam.



Bryan Stirewalt - Managing Director, Supervision, joined the DFSA in 2008 as a Director in the Supervision Division, responsible for commercial banking and insurance activities as well as co-ordinating the DFSA's efforts to combat money laundering and terrorist financing.

Mr Stirewalt was appointed Managing Director of the DFSA's Supervision Division in 2010. The

Supervision Division includes front-line oversight of a variety of financial service providers, including commercial banks, investment banks, reinsurance companies, insurance intermediaries, fund managers and fund administrators. Additionally, he oversees the DFSA's regulatory role with CRAs and various Ancillary Service Providers (ASPs). As Managing Director, he continues to be active in DFSA's efforts to fight methods of illicit finance, including co-operation with a variety of local, regional and international counterparts.

In September 2012, Mr Stirewalt was asked to be the Co-chair of the Basel Consultative Group, which is a forum for deepening the Basel Committee's engagement with supervisors around the world on banking supervisory issues.

Mr Stirewalt has spent most of his working life in the financial regulatory sphere, in both public and private sector roles. From 1985 to 1996, he worked for US OCC as a National Bank Examiner, where he specialised in policy development and implementation, problem bank rehabilitation and banking fraud initiatives. From 1996 to 2008, he worked for an international consulting and advisory firm. During his consulting and advisory career, Mr Stirewalt focused his attention on Emerging Markets, including management of large-scale and multi-faceted development projects in Poland, Ukraine, Cyprus and Kazakhstan. These projects related to a wide array of topics including financial sector development, risk management policies and practices, AML systems and controls and methods of supervising complex financial conglomerates.

DFSA EXECUTIVE (CONTINUED)

Gary Wallis - Head of HR joined the DFSA in 2006 and has more than 30 years' experience in HR, including 12 years in the UAE. Mr Wallis has extensive experience in the financial services industry including roles in Dubai in a senior HR development role with HSBC and with ABN Amro as Regional Head of HR. He was also Global Head of HR for Private Clients and Asset Management for ABN Amro based in Amsterdam.



Mr Wallis holds a BSc in Political Science and is a Chartered Fellow of the Chartered Institute of Personnel Development.





WHAT WE DO



DFSA ORGANISATIONAL STRUCTURE

THE POLICY AND LEGAL SERVICES DIVISION

The Policy and Legal Services Division is responsible for policy advice and formulation, providing in-house regulatory legal advice and support to operating Divisions of the DFSA and managing the business of the Regulatory Policy and Rules and Waivers Committees. It is also responsible for developing and maintaining the Laws and Rules administered by the DFSA, and for consulting with the DIFCA and the Government of Dubai on other DIFC legislation. Legal Services also provides litigation management support and advice for the DFSA in its actions in the DIFC Court, FMT and the RAC. The Division is also responsible for providing economic analysis and reporting. This analysis aids the Supervision and Markets teams in their understanding and monitoring of market conditions.

THE SUPERVISION DIVISION

The Supervision Division is responsible for assessing, monitoring and mitigating risk in AFs, including credit rating agencies, that are operating in or from the DIFC. Additionally, the Division registers and monitors the work of Auditors. In the DFSA's broader role of AML and CFT across the DIFC, the Division registers and monitors the activity of other entities such as law firms, accounting firms, and other DNFBPs such as single family offices, company service providers, real estate agents and other high value goods dealers. In its licensing role, the Division reviews new applicants to ensure that proper systems and controls are in place for operation, and that an applicant has appropriate governance arrangements, including fit and proper management teams. In addition to these areas of emphasis, the Division actively searches for emerging risks, trends and stresses on system-wide basis.

THE MARKETS DIVISION

The Markets Division is responsible for the licensing and ongoing supervision of exchanges and clearing houses based in the DIFC. It also recognises exchanges, clearing houses and settlement facilities and members located outside the DIFC. It regulates the Offers of Securities in or from the DIFC and supervises Reporting Entities by monitoring their market disclosures and ongoing compliance with DFSA rules.

THE ENFORCEMENT DIVISION

The Enforcement Division enforces DIFC Laws and Rules administered by the DFSA. The Division takes action in circumstances where misconduct may cause damage to the financial services industry in the DIFC. Its overarching objective is to prevent, detect and restrain conduct that causes or may cause damage to the reputation of the DIFC. The DFSA has a wide range of enforcement powers and sanctions and the DFSA uses these sanctions with discretion to ensure that they are proportionate and fair. The DFSA may accept Enforceable Undertakings, impose fines or censures, take licensing action or commence proceedings in the FMT or the DIFC Courts.

THE OFFICE OF GENERAL COUNSEL

The Office of General Counsel provides lead advice and counsel to the Board of Directors, its Committees and the Executive on legal matters affecting the DFSA, including governance, statutory obligations, reporting, complaints and liability exposures. The Office also oversees education, recordkeeping and updates regarding DFSA's ethics programme and conducts ongoing reviews of the TRL Programme.

INTERNATIONAL RELATIONS

International Relations leads and co-ordinates the DFSA's role in all international matters and co-operative bi-lateral and multi-lateral efforts with its regional and international counterparts, as well as the DFSA's engagement with the global financial standard-setters. The Board Secretariat manages and co-ordinates all corporate secretary functions for the Board and each of its committees.

THE CORPORATE SERVICES AND OPERATIONS DIVISION

The Corporate Services and Operations Division provides the operational backbone and infrastructure of the DFSA. The five principal Departments within the Corporate Services and Operations Division include:

- Finance;
- IT;
- Projects and Risk Management;
- Corporate Communications; and
- Office Administration.

THE HUMAN RESOURCES DIVISION

The HR Division is responsible for all aspects of employee resources at the DFSA, particularly for the ongoing recruitment and skills development of employees and their retention. A principal development activity is the recruitment and training of UAE Nationals for regulatory careers through the TRL Programme.

KEY DFSA-WIDE INITIATIVES

ISLAMIC FINANCE

Islamic finance remains an important area of focus for the DFSA. The DFSA is an active member of various committees and working groups of the IFSB, including its Technical Committee.

In a centre where many of our Firms and customers are international, the DFSA decided to be a Shari'a systems regulator. This means that any Firm that claims to be Islamic must have a Shari'a Supervisory Board (SSB) made up of competent scholars. It must have systems and controls to implement the SSB's rulings, and must have annual Shari'a reviews and audits, following the Accounting and Auditing Organisation for Islamic Financial Institutions standards. It must also disclose details of its SSB to its customers, allowing them to make their own decisions about the reliance they are prepared to place on its rulings. As an active regulator, whose staff are well-experienced in evaluating systems and controls, the DFSA supervises to ensure that these arrangements are working in practice as well as on paper.

The Islamic finance population of the DIFC has remained constant at 28 Firms, split almost equally between wholly Islamic Firms and conventional Firms having Islamic windows.

TOMORROW'S REGULATORY LEADERS PROGRAMME

Now in its seventh year the DFSA's flagship programme continues to thrive and we are proud to have successfully 'graduated' five Associates from this programme to become Managers in the Supervision Division in 2012.

With UAE Nationals now making up 30% of the regulatory workforce, the TRL Programme continues to change and improve to better deliver sustainable career opportunities for UAE Nationals within the DFSA. To this end, a Senior Mentoring Programme was introduced in June 2012 giving UAE Nationals the support of DFSA senior management in developing career and leadership skills.

Supporting continuing professional development for all its employees, the DFSA has provided financial support to a number of UAE Nationals wishing to pursue further education and professional certifications in 2012.

2012 DIVISIONAL INITIATIVES

POLICY AND LEGAL SERVICES

Legislative Initiatives

The Policy and Legal Services Division (P&L) continued its review of the DFSA's regulatory framework, leading to further changes to DFSA Laws and rules in 2012. A new Markets Law 2012 was enacted by His Highness Ruler of Dubai in place of the original Markets Law 2004. This brought about a number of significant changes designed to promote investor protection in a manner that better aligns the DIFC to international standards (particularly those of the EU and the Organisation for Economic Co-operation and Development (OECD)).

The Markets Law related changes involved giving the DFSA a greater degree of regulatory oversight of Auditors of DIFC-incorporated companies listed on an AMI or any other exchange and recognition powers with respect to cross-border trading, including recognition of alternative trading systems. Associated with the introduction of the new Markets Law 2012, P&L and the Markets Division produced a new MKT module of rules which was distributed for public consultation.

P&L also worked closely with the Supervision Division to introduce a new PIB module of the DFSA Rulebook. This module implements the Basel III framework, and represents one of the first implementations of Basel III globally.

The DFSA introduced a new CRA regime, which has been designed to meet IOSCO standards relating to the regulation of CRAs. The regime gives the DFSA regulatory oversight and control over CRAs within the DIFC.

Changes were also made to the Corporate Governance regime to align the governance requirements applicable to AFs with the enhancements made by the international standard-setters, particularly Basel and the IAIS. The requirements applicable to Controllers of Authorised Person were enhanced, so that the DFSA powers, to deal with such Controllers, is commensurate with the powers available to regulators in comparable jurisdictions.

A series of other changes were made to the Rulebook, following an internal review, to bring the DFSA's regime more in line with international standards. This included updates to the COB, Prudential Insurance (PIN) and General (GEN) Rulebooks.

The DFSA assumed the responsibility for, and became the single AML/CFT regulator of, all AML/CFT supervision and enforcement in the DIFC. P&L worked closely with the Supervision Division to create the new DNFBP regime as the framework for AML/CFT supervision of DNFBPs in the DIFC.

Furthermore, in light of changes to the FATF Recommendations regarding International Standards on AML, CFT and Proliferation, the P&L and Supervision Divisions issued a Consultation Paper proposing further changes to the AML

framework. These changes will ensure that the framework remains up-to-date with the finalisation of the rules expected in 2013.

Policy Development

The DFSA continued its active involvement with the international standard-setters, with P&L staff particularly involved in the work of IAIS and IOSCO committees. The DFSA also responded, where appropriate, to consultation papers issued by international standard-setting bodies.

RAC and FMT

In representing the DFSA, the Legal Services team worked closely with other Divisions, in particular Enforcement, on a number of matters before RAC, the FMT and the DIFC Courts.

Industry Outreach

During 2012, P&L delivered a number of presentations covering many subjects, including changes to the Corporate Governance regime, the implementation of Basel III and the introduction of the new CRAs regime, as well as the processes and recent cases of the RAC and FMT.

SUPERVISION

Overview of Supervision

The Supervision Division is the DFSA's largest Division, handling the initial licensing and continuous oversight of a variety of entities and persons operating in the DIFC. As at 31 December 2012, the Supervision Division supervises 293 AFs operating in the DIFC. These Firms provide a wide range of financial services such as commercial banking, investment banking, investment brokerage, private banking, reinsurance, insurance intermediation, fund management and administration and general financial service advisory.

The Supervision Division has three teams of experienced supervisors who focus on the conduct of business and prudential risks associated with each of these business lines. Our supervisory efforts in respect of conduct of business risks, require that Firms interact in an open, transparent and fair manner with their potential and existing clients and with the markets in general. In addition to the AFs, the DFSA also authorised 418 AIs for senior positions in AFs.

In addition to the Firms mentioned above, the Supervision Division regulates three CRAs, 16 Registered Auditors (RAs) and 51 ASPs such as law firms and accounting firms. Finally, the Supervision Division, starting in 2012, assumed regulatory responsibility for AML and CFT activities related to DNFbps, that operate in the DIFC. DNFbps include certain real estate professionals and other high value goods dealers. A specialised team, within the Supervision Division, focuses on the services and professions mentioned above, and on our efforts to combat financial crime

SUPERVISION (CONTINUED)

across all business lines. Combating financial crime and corruption remains a top priority for the supervisory staff.

International Standard-Setters Affecting Financial Regulation

A core objective of the DFSA is to operate in a manner consistent with requirements of international standard-setters. In response to the financial crisis, each of the major financial sector standard-setters have made significant changes in their expectations for financial sector supervisors and regulators. FSB has led this effort, with a broad range of issues to be addressed by all financial sector regulators. The BCBS, IAIS and IOSCO have each changed, almost simultaneously, their "core principles" for supervision and regulation of the banking, insurance and securities industries, respectively. Additionally, FATF has revised its recommendation for AML and CFT and the OECD has increased its emphasis on transparency and co-operation in the areas of taxation and corruption. All of the standard-setters are now more focused on effectiveness and outcomes, rather than mere technical compliance with standards. Each of these changes noted above has resulted in alterations to our supervisory and regulatory practices, in order that we may remain consistent with international standards relative to the size, nature and complexity of operations in the DIFC. These changes required significant resource contribution in 2012.

In addition to changes from the international standard-setters for financial regulation, most financial institutions have become accustomed to the global reach of various countries' sanctions regimes, relative to AML and CFT. However, we also have noted increased extra-territorial reach in the areas of taxation and corruption initiatives recently. Most notably are the US Foreign Account Tax Compliance Act (FATCA), the US Foreign Corrupt Practices Act and the UK Bribery Act. As these pieces of legislation are not our own, the DFSA cannot interpret or enforce their provisions. Nonetheless, this should be part of every Firm's risk management and client acceptance processes. Given the global nature of activities conducted through the Centre, these regulations have a level of potential impact to Firms operating in the DIFC.

Licensing Activity

A key process for the DFSA is a robust, risk-based approach to licensing of applicant firms. Our licensing team conducts a thorough analysis of each new applicant, particularly in relation to the applicants' corporate governance structures, the viability and controls surrounding the business model and product offerings proposed, the fitness and propriety of senior management and the Board of Directors, and the reasonableness of the financial projections. The team also looks closely at the applicant's capability of complying with the laws and regulations applicable to operations in the DIFC, with particular emphasis on conduct of business and AML rules. The team reviews the source of funds from the applicant's beneficial owners and the types of clients with which a Firm wishes to engage

SUPERVISION (CONTINUED)

through the DIFC entity. Where relevant, we closely liaise with other regulatory bodies that have existing or prior relationships with the applicant.

The average turnaround time for applicants in 2012 was 113 days. Factors that most heavily influence the turnaround time include, but are not limited to: DFSA's confidence and experience with a home country regulator; the transparency and complexity of the applicants' ownership structures; the complexity of the business models; the types of activities planned; the types of products planned for offer; and the general level of co-operation from the applicant during the process.

The number of applications for licensing increased again in 2012 with the DFSA licensing 42 AFs and three CRAs. This represents a 11% growth in the AFs over 2011 totals, and compares closely with the growth increase shown in 2011 over 2010. The growth has come from various jurisdictions, with heaviest concentrations from Asia and the Gulf Co-operation Council. Despite the economic situation, the DFSA also continues to receive applications from European-based firms as well. The expansion of the Representative Office base has also been significant, as we now have a total of 32 Representative Offices operating in the DIFC.

Supervision Methodology

As a risk-based regulator, the DFSA continuously assesses a Firm's potential impact to the DFSA's objectives and the Firm's individual risk profile across four basic areas: 1) corporate governance, management capabilities and business models; 2) financial and operational risks; 3) conduct of business risks; and 4) financial crime risks. Our risk assessments are derived from a combination of on-site visits, desk-based surveillance and industry analysis. On-site visits are conducted by experienced financial supervisors, who are provided with ongoing training and development opportunities to ensure awareness of global trends and product innovations. A programme of identifying subject matter expertise allows specialisation in product and service knowledge sets, which are then shared amongst team members. The scope of risk assessment reviews is determined by factors such as a Firm's size and complexity, product offerings, client base, business model and track record of transparency and co-operation with the DFSA. The frequency and scope of risk assessments and validation procedures are dependent upon the impact and probability of risk factors. The results of our risk assessments are discussed with management and communicated in writing to the Firm's executives and Board, and any other appropriate oversight body.

Supervisory Risk Assessments and Thematic Reviews

During 2012, the Supervision Division conducted 106 on-site risk assessments of AFs. Using an electronic database, we also reviewed the financial condition of AFs on a quarterly basis. This helped us identify trends across all regulated entities, across pre-determined peer groups and within individual entities that might require follow-up and escalation. We also completed 16 assessments of RAs, 24 assessments of ASPs and three initial assessments of the newly licensed CRAs.

SUPERVISION (CONTINUED)

The Supervision Division also uses thematic reviews to gain a horizontal view of selected issues across all Firms, which supplements our vertical analysis of individual Firms noted above. During 2012, we conducted a thematic review on the topic of client on-boarding, both from a suitability and AML standpoint. The DFSA sent a letter to all AFs in October 2012 highlighting the findings of this review and discussed the findings in an outreach session. Throughout the year, we also conducted smaller-scale thematic reviews analysing the changes in the global economy on DFSA regulated entities and on new sanctions imposed in the wake of the Arab Spring.

Supervisory Colleges and Co-operation with Other Regulators

International co-operation between home and host supervisory authorities was high on our agenda, particularly with our higher impact institutions. Of the 28 global SIFIs, 23 have a presence in the DIFC. The DFSA remains active in its participation with Supervisory Colleges, which have received new impetus in their importance as a result of the recent global financial crisis. Beyond the role in various Supervisory Colleges, we have actively worked to enhance the role of co-operation with other regulators through information exchanges. These information exchanges are achieved via our suite of bi-lateral MoUs and our membership of multi-lateral MoUs. The Supervision Division also co-operates openly and regularly with other regulatory bodies in the UAE, including: The Central Bank of the UAE (CBUAE) and its AML Suspicious Cases Unit (AMLSCU); the Emirates Securities and Commodities Authority (SCA); and the Insurance Authority of the UAE (IA).

AML, CFT and UN Sanctions

The UAE Penal Code and other Federal criminal laws apply in the DIFC, including Federal Law No 4 of 2002 (Criminalisation of Money Laundering) and Federal Law No 1 of 2004 (Counter Terrorism Law). The DFSA is actively engaged in fostering a culture of AML/CFT/Sanctions compliance by regulated entities within the DIFC. The initial vetting of all applicants and the ongoing supervision of AML/CFT/Sanctions compliance remain high on the DFSA's agenda. The DFSA tests the systems and controls of regulated entities in relation to AML/CFT/Sanctions, with particular emphasis on Know Your Customer and Suspicious Transaction Reporting (STR) processes. In 2012, 52 STRs were filed by regulated entities with the AMLSCU, as compared with 38 in 2011.

As part of its AML/CFT/Sanctions regime, the DFSA continued to review the level of compliance with relevant UN Security Council Resolutions. Two outreach sessions were held in 2012, specifically related to sanctions. In January 2012, Mr Adam Szubin, Director of US Treasury's Office of Foreign Asset Control (OFAC), provided a presentation to regulated entities in the DIFC. In March 2012, the DFSA held a half day outreach with presentations from Special Surveillance staff, industry and the AMLSCU. Both outreach sessions were well received and attended.

Registered Auditors

During 2012, the DFSA continued supervision of RAs through risk assessments. The regulatory remit of the DFSA was further extended during 2012 with amendments to the Markets Law that now sees Auditors of publicly listed entities also being subject to the same regulatory supervision as Auditors of AFs, AMLs and domestic funds.

Credit Rating Agencies

In the wake of the global financial crisis, IOSCO placed new emphasis on ensuring that CRAs are subject to adequate regulation and supervision. The DFSA, in order to be compliant with the IOSCO standards, implemented a regime to regulate any CRAs operating in and from the DIFC. The DFSA's CRA regime follows a principles-based approach as adopted by IOSCO, with recourse to the CRA regimes under EU Regulation 1060/2009 and those adopted by Hong Kong and Singapore where appropriate.

MARKETS

The focus for the Markets Division in 2012 was on four main areas: embedding the operation of the Official List of Securities; supervision of the DIFC markets and clearing houses; defining and implementing policy; and fostering relationships and communication with stakeholders. The DIFC is home to two AMLs, one operating an exchange and one operating both a clearing house and an exchange, namely the DME and NASDAQ Dubai respectively.

Official List of Securities and Markets Rules

The year saw the introduction of new Markets rules including new listing rules which provide an enabling framework for new issuers and a new prospectus approval process; enabling the Markets Division to manage risk more effectively. It strengthens the regulatory role of the DFSA maintaining the Official List of Securities.

Policy Initiatives

The finalisation of significant work by the global regulatory standard-setting bodies of IOSCO has, in larger part, determined the agenda of policy initiatives for the Markets Division and driven the development of capital market policy in two areas.

Firstly, a review of the DFSA Rulebook AML module was completed. This review brings the rules of exchanges, alternative trading systems, clearing houses and Central Securities Depositories in line with international standards. It incorporates in the DFSA Rulebook essential elements of the IOSCO-CPSS Recommendations for Financial Market Infrastructures as well as the IOSCO Principles for Commodity Derivatives Markets.

Secondly, a policy paper was approved by the DFSA for the development of a Code of Market Conduct.

MARKETS (CONTINUED)

Supervisory Activities

The Markets Division executes surveillance of the DIFC markets in close liaison with the AMI. The AMI's, however, remain the frontline supervisor of the conduct in their respective market. The Markets team assumed a lead role in the investigation of alerts arising from signals generated by exchange referrals or independent observations, in 2012. This resulted in two referrals for further Enforcement investigation.

A review was conducted of the changes in clearing house arrangements for DME. In liaison with SCA, several members of NASDAQ Dubai were visited on-site and risk assessments were completed with two objectives: 1) to further understand the manner by which local brokers are regulated and 2) to assess the extent of the compliance effort within these broker and clearing firms.

The Markets Division also provided approval to NASDAQ Dubai and DME regarding various product innovations, efficiency and operational enhancements and the acceptance of new members from jurisdictions outside of the DIFC.

Supervision of Issuers

The Markets Division continued to monitor the disclosures of issuers and actively engaged with them to ensure adequate, appropriate and timely disclosures were made. The international orientation of the DIFC exchanges and clearing house is evidenced by the variety of the country of origin of the entities with listed equity securities, including the US, Kuwait, South Africa, Bahrain, Jordan, Saudi Arabia, Malaysia, UK and Germany.

The Markets Division processed applications for two new debt listings, one equity listing, a number of pre Initial Public Offering enquiries and one takeover transaction. Nine delistings were effected for both primary and secondary listed securities and five sukuk matured and were repaid in full.

Market conditions for public offerings of securities have remained challenging throughout the year as demonstrated by the limited number of securities seeking listing.

Relationship and Communication with Stakeholders

The Markets Division continued to be strongly committed to both public and private engagement with stakeholders to the DIFC capital markets. The Markets team employed various initiatives in this regard including providing technical support to working groups of the international standard-setting bodies, hosting outreach sessions and actively participating in external presentations. The Markets Division's participation in industry conferences and expert panels covered a variety of topics including clearing, custody, corporate governance and commodity derivatives.

MARKETS (CONTINUED)

The Markets Division also co-hosted a Knowledge Series event with the DIFC related to the amendments to the DIFC's Markets rules and engaged with market participants on how the new regime will operate in practice.

Co-ordination and co-operation between regulators attracts an increased focus as the functioning of local capital markets is, more than ever, impacted by global events. In this regard, several initiatives were developed. In particular the interaction between the DFSA and local regulatory authorities, the SCA and the CBUAE, this is a very important element of the work conducted and has been ongoing since inception of the DIFC.

The Markets Division is also represented and providing technical input in the IOSCO Committee on Commodity Futures Markets, IOSCO-CPSS working group on OTC Derivatives Standards for Data Reporting and the OECD Taskforce for Middle East and North Africa (MENA) Capital Markets.

Recognised Bodies and Recognised Members

The Recognition regime of the DFSA remains a very important element of the regulatory framework and market structure of the DIFC. It allows brokers and clearing members to connect remotely to one of the DIFC AMI's whilst maintaining regulatory checks and controls to admission and transacting on an AMI.

During 2012, the DFSA completed a periodic review of the Recognition module to amend and simplify the law and rules in relation to the recognition of overseas exchanges, clearing houses and members of an AMI.

The Markets Division recognised 2 applications from Firms seeking membership on the DME. The Markets Division also processed the withdrawal of Recognition from some Members of both NASDAQ Dubai and DME. As at the end of 2012, there are 30 members on NASDAQ Dubai and 59 members on DME.

ENFORCEMENT

Expansion of the Enforcement Perimeter

The DFSA's enforcement responsibilities were expanded in February 2012 when it accepted a delegation from the DIFC RoC to administer those aspects of the Companies Law and other legislation which required enhanced regulatory scrutiny. The delegation authorised the DFSA to conduct investigations in respect of contraventions of the Companies Law, Insolvency Law, Limited Partnership Law, Limited Liability Law and the General Partnership Law.

This delegation was made to leverage upon the DFSA's extensive investigative skills and experiences and the effectiveness of its enforcement capacity. Shortly after accepting this delegation, the DFSA commenced an investigation into alleged contraventions of the Companies Law and, jointly with the Supervision Division, initiated a thematic review of the corporate governance arrangements within DFSA licensed Firms.

Endorsement of the Pre-emptive Approach

Stronger collaboration between the DFSA's Enforcement, Supervision and Markets Divisions continued to result in more efficient and effective regulation of financial services and markets in the DIFC, in 2012. The DFSA's experience confirms that early enforcement intervention, in collaboration with the Supervision Division, results in quicker and more cost effective regulatory outcomes than would result from expensive and protracted investigations.

Early intervention generally results in corrective behaviour and a reduction in the number of matters referred for investigation than would otherwise be the case. The DFSA commenced eight investigations in 2012, compared to seven in 2011.

Post Enforcement Review

The Enforcement Division conducted a review of investigation processes of peer regulators, in 2012. The aim of the review was to identify ways to enhance the DFSA's investigation effectiveness. The review was deemed successful in that it identified an agenda for regulatory reform and process improvement.

Investigations

The DFSA conducted 13 investigations in 2012, including two investigations carried over from 2010, and three from 2011.

Investigations commenced in 2012 enquired into a range of conduct namely:

- Misleading/obstructing the DFSA;
- Trading in shares listed on NASDAQ Dubai while in possession of undisclosed material information;
- Whether an AF's role in promoting an investment fund contravened rules in the General module of the DFSA Rulebook;

ENFORCEMENT (CONTINUED)

- Whether an AF and an AI, in carrying out client due diligence, contravened rules in the Conduct of Business module of the DFSA Rulebook;
- Whether a client relationship manager provided false account statements to clients; and
- Breaches of the Companies Law (DIFC Law No 2 of 2009) pursuant to the delegation from the DIFC RoC.

Enforcement Outcomes

There were three Enforcement outcomes during the year resulting in sanctions. The particulars of each sanction are disclosed on the DFSA website under Public Register/Regulatory Actions.

Complaints Management

Allegations of misconduct, which are received from many sources, but primarily members of the public, are an important source of intelligence for the DFSA. The DFSA encourages the public to make complaints when they believe a DFSA administered law or rule has been contravened.

The DFSA's complaints management function also serves to promote investor confidence as it provides consumers with a forum through which their complaints can be addressed and through which information about consumer scams can be monitored.

The DFSA received 94 consumer complaints during the year. A significant proportion of those complaints related to conduct that fell outside the DFSA's jurisdiction. In such circumstances, complainants were, and continue to be redirected to the appropriate regulator.

International Assistance

The DFSA continued to liaise with, and provide enforcement related assistance to, both regional and international regulatory agencies.

The agencies that the DFSA shared information with in 2012 include:

- US Commodities Futures Trading Commission
- Reserve Bank of India
- Securities and Exchange Board of India
- Australian Securities and Investments Commission
- US Securities and Exchange Commission
- Financial Services Commission of Mauritius
- Securities and Futures Commission of Hong Kong
- UK Financial Services Authority
- Swiss Financial Market Supervisory Authority
- Austrian Financial Market Authority
- New York State Department of Financial Services

- Monetary Authority of Singapore
- Netherlands Authority for the Financial Markets
- Central Bank of Ireland
- Emirates Securities and Commodities Authority
- Central Bank of the UAE
- Dubai Police.

Consumer Protection

Unsuspecting and unsophisticated consumers continue to be targeted by unscrupulous merchants promoting fraudulent schemes requiring the payment of advance fees. The Enforcement Division places high importance on educating consumers about the characteristics and perils of such schemes. In 2012, the DFSA published nine Consumer Alerts on its website and engaged the public through radio, newspapers, online publications and social media.

Outreach

The Enforcement team continued to contribute to the development of the domestic, regional and international regulatory framework through its contribution to outreach activities, in 2012. During the year, the team conducted or contributed to seven international, four regional and eight domestic outreach programmes.

THE OFFICE OF THE GENERAL COUNSEL

Throughout 2012, the Office of General Counsel provided timely and high quality advice and support to the Board of Directors, its Committees and the Executive regarding corporate governance, statutory obligations, reporting, administrative procedures and risks that the DFSA might face. The Office of General Counsel conducted a comprehensive review of the Codes of Values and Ethics and continued to educate employees on the DFSA's commitment to high standards of ethical conduct and integrity. The Office continued its ongoing reviews of policies, procedures, and legislation. The General Counsel also assumed a new role as Dean of the TRL Programme, DFSA's classroom and on-the-job training programme for young UAE Nationals. Externally, the Office worked with DIFC Authority, DIFC Courts, UAE and Dubai officials regarding legislative and public policy issues that affect the DFSA's relationships and role as the independent regulator for the Centre.

INTERNATIONAL RELATIONS

Regulatory Co-operation

The most important aspect of international relations is the willingness and ability to co-operate with fellow regulators and supervisors. The DIFC Regulatory Law allows the DFSA to obtain information on behalf of other regulators or law enforcement agencies. The sharing of information is further facilitated by multi-lateral and bi-lateral MoUs to which the DFSA is a party. International Relations is responsible for the negotiation and finalisation of MoUs and, to date, the DFSA has in place 58 bi-lateral MoUs and four multi-lateral MoUs. In 2012, the DFSA expanded its network of regulatory co-operation by signing MoUs with supervisory counterparts from the US, Japan, China as well as a new regional arrangement with Africa and the Middle East.

In January, the DFSA signed an MoU with the PCAOB, the US agency responsible for federal oversight of the audits of public companies.

In May the DFSA signed its second MoU with the CBRC, supplementing its substantive MoU from September 2007. This supplementary MoU was in response to the Basel Committee's guidelines to enhance cross-border co-operation on crisis management.

In November, a protocol was signed with the Ministry of Economy, Trade and Industry and the Ministry of Agriculture, Forestry and Fisheries, the Japanese Ministries responsible for the oversight of commodity derivatives.

Another more recent mechanism for co-operation, principally in the areas of banking and insurance, is the supervisory college and during the year the DFSA has accepted invitations from a number of home supervisors to participate in colleges of AFs which are branches in the Centre. The DFSA currently participates in eight supervisory colleges.

During the year, some 28 responses were provided by the DFSA to requests for regulatory information and assistance from fellow regulators. During the same period, the DFSA made some 72 requests to fellow regulators for information.

Regional Relations

Co-operation and interaction with the DFSA's federal counterparts and with regulators and supervisors in the region remained a priority throughout 2012. The DFSA continued to meet regularly with the SCA and with the CBUAE to discuss issues in common. At an operational officer level, there were also regular meetings throughout the year between the three regulators and with the IA. The DFSA also participated in meetings of the National AML Committee and maintained its membership of the Arab Union of Securities Authorities. Following a visit from the President of the Capital Markets Authority of Oman (CMA) to the DIFC, the

INTERNATIONAL RELATIONS (CONTINUED)

CMA sent a number of young Omani regulators to join in an open day for the TRL programme.

Throughout the year, the DFSA actively engaged in the work of its regional forum, IOSCO's AMERC, attending meetings in Mombasa in February and in Beijing in May. At the latter meeting, AMERC adopted and six of its members signed, a regional MoU drafted by the DFSA to enhance co-operation between the 19 neighbouring members of the Committee and to reflect collaborative initiatives.

Standard-Setter Participation

Over the past two years, the three key standard-setters have revised their principles and their methodologies (that is, the process by which implementation of these principles can be measured). In keeping with its goal to play a part in the shaping of new international standards, the DFSA has participated in the work and objectives of the BCBS, IOSCO and the IAIS. In 2012, the DFSA provided comments on 10 consultation papers published by the standard-setters during the year.

Since the completion of the Basel Committee's review of its Core Principles and their adoption in September, the DFSA amended its prudential regime to ensure compliance with the revised standards. Also in September, the DFSA's Managing Director, Supervision, was appointed Co-Chair of the Basel Consultative Group and, as a result, sits as an Observer on the Basel Committee.

In the securities sector, with the restructure of IOSCO, the expert committees, which had been generally limited to members of the Technical Committee, were broadened to include as many as 30 jurisdictions. As a result, the DFSA now participates in three committees. The Managing Director of Policy and Legal Services serves as Vice-Chair and the DFSA is represented by the Senior Director and Head of Enforcement on the Committee on Enforcement and Exchange of Information (C4). The Director of International Relations is a member of the Assessment Committee; while the Director of Markets is a member of the Commodity Futures Markets Committee (C7). The DFSA is also represented on the IOSCO-CPSS Working Group on Over-The-Counter (OTC) Derivatives and the MENA-OECD Capital Markets Taskforce by the Managing Director of Markets.

In the insurance sector, in addition to being represented by the DFSA's Chief Executive on the Technical Committee, the DFSA participates in three Sub-Committees, namely, the Governance and Compliance Sub-Committee (where a Director in P&L is Chair), the Supervisory Co-operation Sub-Committee and the Insurance Groups Supervision Committee. The Director, International Relations, is also a member of the Signatories Working Group, which assesses applications to become a signatory to the IAIS multi-lateral MoU (MMoU).

The DFSA's commitment to the development of standards for Islamic finance was recognised during the year by its admission to the Technical Committee of the IFSB. The DFSA also participated in work on Revised Capital Adequacy Standards, which is mandated to draft the standard for implementation of Basel III. The DFSA also contributed to work on risk management of Takaful and finalised and published reports on two standards - on liquidity management and stress-testing.

CORPORATE SERVICES AND OPERATIONS

Finance Department

During 2012, a review of the DFSA's Finance policies manual, operational authority matrix and the associated processes was carried out and the Authority's accounting and payroll systems were upgraded. These exercises further assisted the Finance Department in improving operational efficiencies, reducing transactions processing time and establishing tighter internal controls.

In 2012, the DFSA controlled its expenditure within approved budgets.

IT Department

The IT Department continued to improve the security and robustness of all internal and external systems.

Extensive external network penetration testing was conducted by an independent third party in addition to the DFSA's own monitoring and testing.

In 2012, over 20 projects of varying size and complexity were successfully implemented and delivered to ensure that the DFSA's technology offering aligns with, and supports, the operational requirements of the various business units.

Projects and Risk Management Department

The demand for project management support for cross-divisional projects continued throughout 2012. The Department provided project management for the review of the Prudential Sourcebook, the AML module, business planning and construction of the new Enforcement interview room. In addition, project management support was applied to a number of key international events and meetings hosted by the DFSA, reflecting the commitment to ensuring efficiency and delivering quality.

A number of independent Internal Audit reviews were conducted to report on the effectiveness of operations and overall compliance with procedures and controls, whilst ongoing support to business process design and enhancement also continued.

Corporate Communications Department

Effective media engagement and management continued to be a priority for the Department in light of a number of important changes to legislation enforcement outcomes. Having solid and professional dealings with the region's press helps the

DFSA to ensure timely and accurate distribution of our news and information to our public and regulated community.

During the year, the Department issued 1 public notice; 32 media releases; 14 consumer alerts; 4 notices of amendments to legislation; 5 notices of consultation release and 6 Dear Senior Executive Officers letters.

HR DIVISION

Delivery of the Learning and Development Plan is the primary contribution of the HR team to the achievement of the Quality theme of the Strategic Goals of the DFSA. To this end, we made significant investment in 2012 and delivered a number of significant initiatives.

In 2012, DFSA staff on average participated in excess of seven days of 'off-job' learning and development activities with two thirds of these activities being directly related to the development of regulatory skills.

Employee turnover in 2012 has remained very low at 5.43% with turnover from the regulatory staff increasing slightly to 8.45% and non-regulatory staff falling to 1.72%.

Low employee turnover has a positive impact on recruitment requirements and five replacement hires of five different nationalities were recruited in 2012.

In recent years, all additional headcount has been allocated to the development of our Emirati workforce with over half of our regulatory recruitment over the last three years being UAE National employees primarily joining our TRL Programme. This has led to our UAE colleagues now forming the largest nationality group among our regulators, a group that includes supervisory, enforcement, policy and legal staff.

Comparing our regulatory workforce now to that prior to the start of our TRL Programme, in 2005, clearly shows this significant development. See chart 1 and 2.

CHART 1-REGULATORY WORKFORCE IN 2005

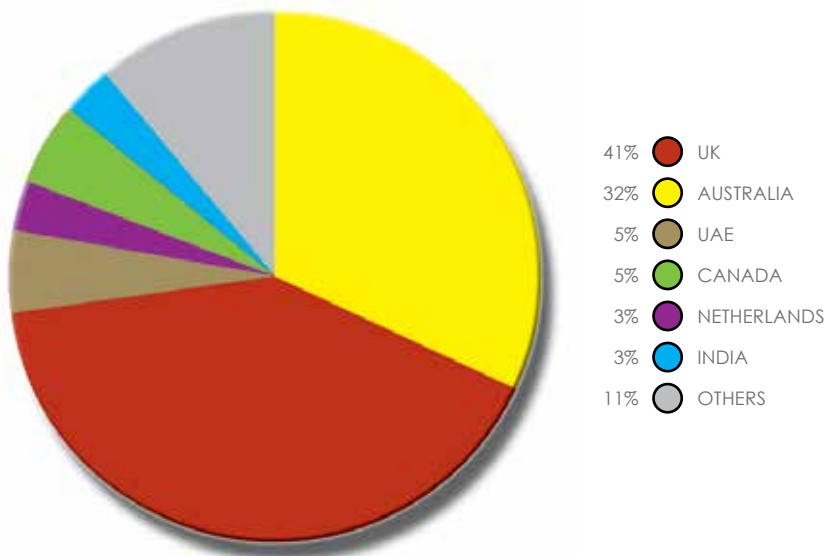
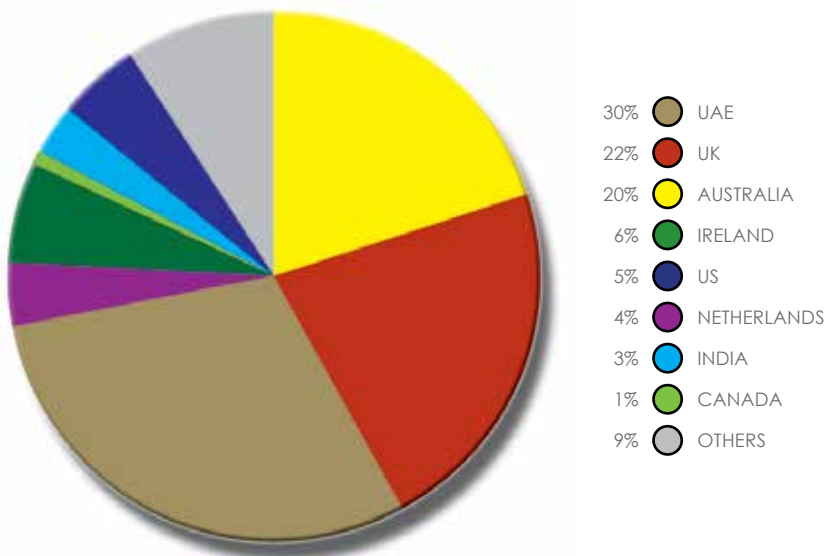


CHART 2-REGULATORY WORKFORCE IN 2012



2012 has also been a year of significant 'internal' focus for the HR team. The team has undergone an external review, conducted by Deloitte, and upgraded its HR Information System introducing online tools for both performance management and learning needs analysis which will be launched in 2013. We have also conducted an in depth benchmarking exercise of policies and practices with a number of 'employers of choice' in Dubai.



2012 KEY PERFORMANCE STATISTICS

THE DFSA IN ACTION IN 2012

• Firms Authorised	42
• Islamic Institutions	1
• Individuals Authorised	418
• Ancillary Service Providers Registered	4
• Auditors Registered	2

POLICY AND LEGAL SERVICES IN 2012

• Consultation Papers (Policy, Laws and Rules) published	6
• Laws issued	3
• Rule-making instruments made	30
• Waivers and Modifications granted	58

SUPERVISION IN 2012

• Risk Assessments of Authorised Firms	105
• Risk Assessments of Ancillary Service Providers	23
• Risk Assessments of Registered Auditors	28
• Licence Variations	16
• Total number of applications received	59
• Average days to process an application in 2012	113

MARKETS IN 2012

• Reporting Entities	22
• Take-over applications reviewed	1
• Reviewed Prospectus'	2
• Public enquiries	21
• Recognised Member applications approved	2
• Recognised Body applications approved	1
• Disclosure notifications related to Listed entities	964

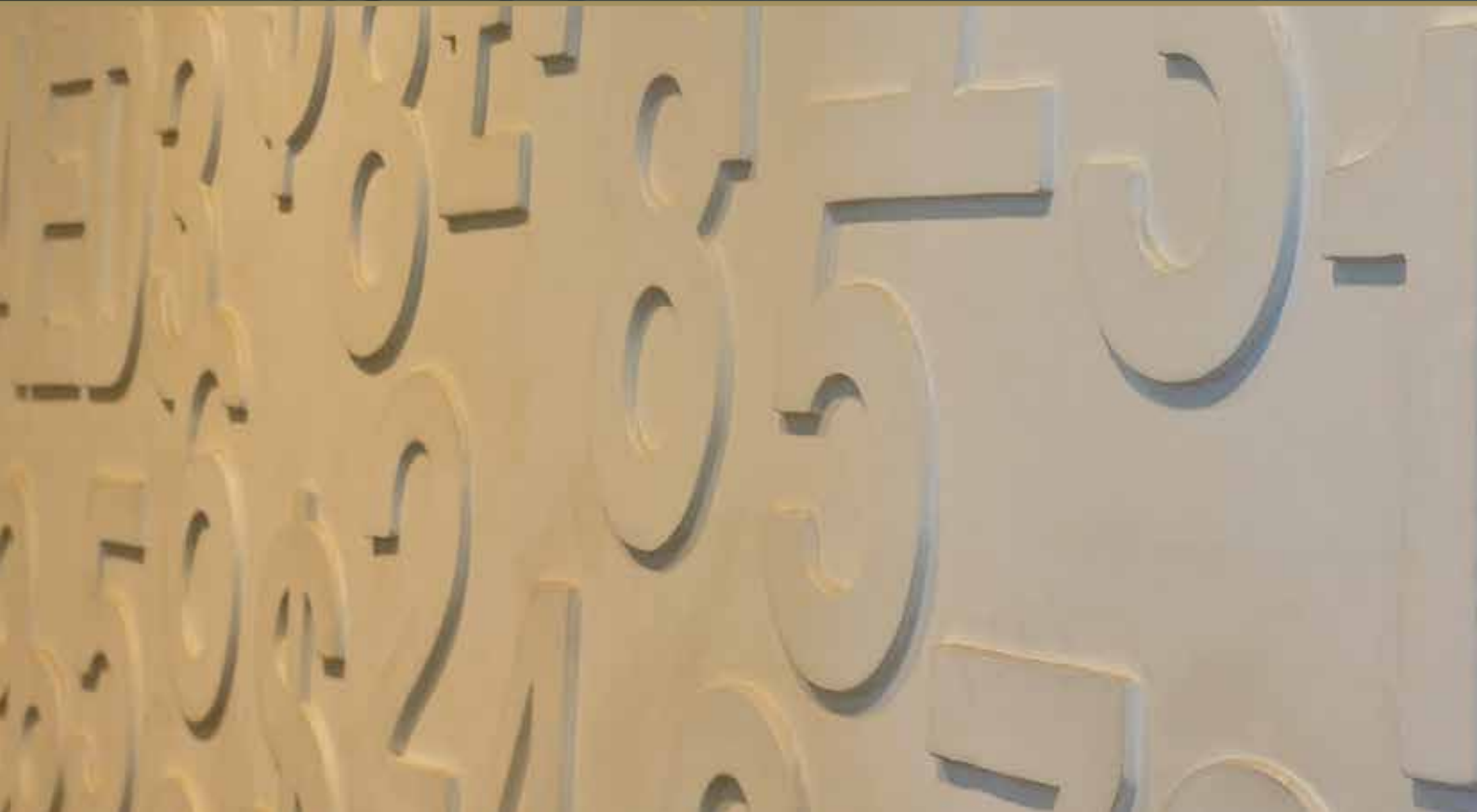
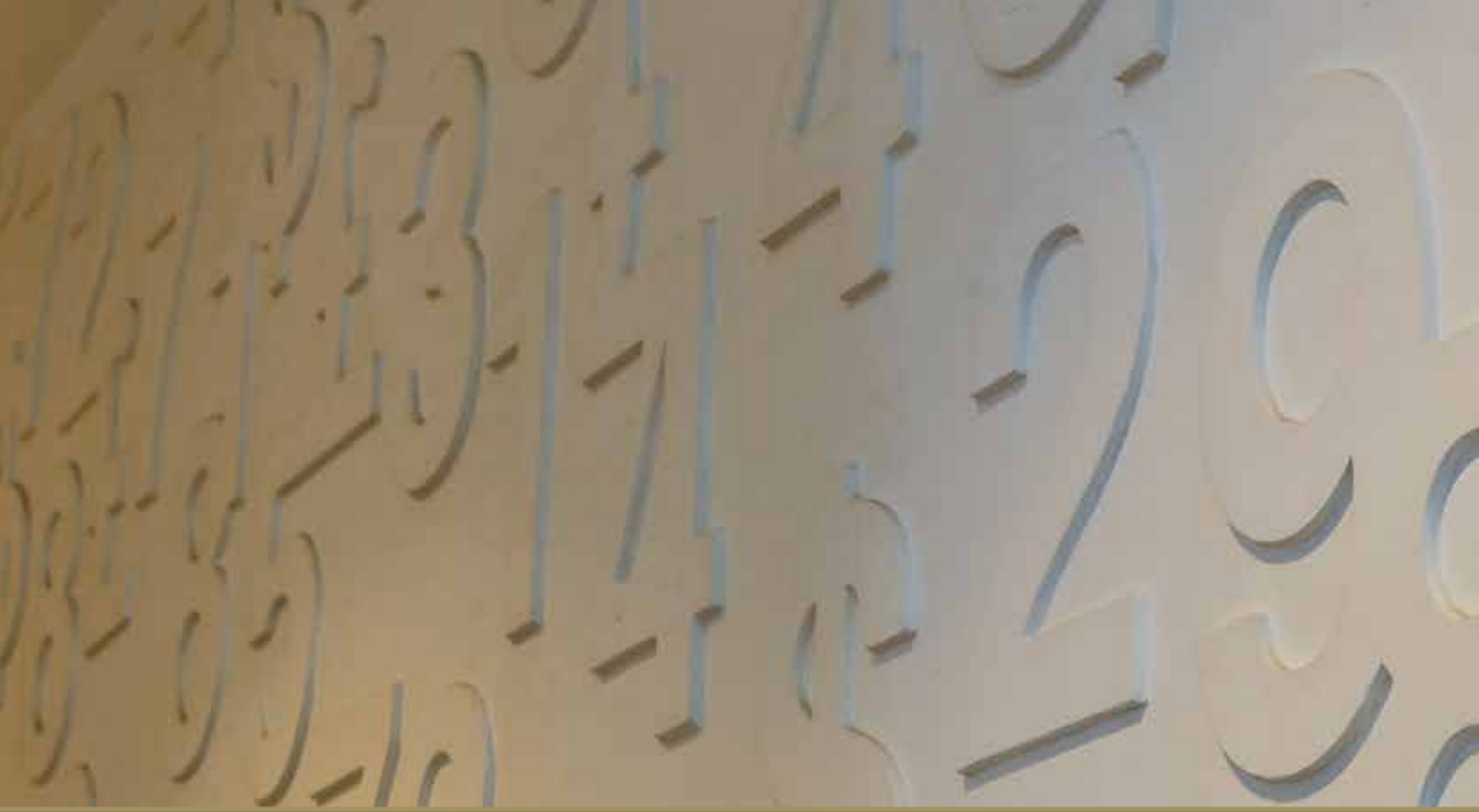
ENFORCEMENT IN 2012

• Complaints Management	
• Received	111
• Assessed	108
• Referrals from Supervision and Markets Divisions/ROC	16
• Investigations commenced	
• Commenced	10
• Concluded	9
• Enforcement Outcomes	7
• International assistance requests	
• Made	20
• Received	14
• Consumer Alerts	14

2012 KEY PERFORMANCE STATISTICS (CONTINUED)

INTERNATIONAL RELATIONS IN 2012

• Memoranda of Understanding signed in total	62
• Bi-lateral MoUs signed in total	58
• MMoUs signed in total	4
• Bi-lateral MoUs signed in 2012	3
• MMoUs signed in 2012	1
• Regulatory requests received from fellow regulators for information and assistance	28
• Visiting foreign delegations received by the DFSA	17





APPENDICES

APPENDIX 1

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31 2012

Independent Auditor's report	67
Balance Sheet	68
Statement of financial performance	69
Statement of changes in equity	70
Cash flow statement	71
Notes to the financial statements	72 to 79

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DUBAI FINANCIAL SERVICES AUTHORITY

Report on the financial statements

We have audited the accompanying financial statements of Dubai Financial Services Authority ("DFSA") which comprise the balance sheet as at 31 December 2012 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting policies set out on pages 72 to 74 of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements have been prepared, in all material respects, in accordance with the accounting policies set out on pages 72 to 74 of the financial statements.

PricewaterhouseCoopers

Dubai, United Arab Emirates
12 February 2013

BALANCE SHEET

	Notes	31 DECEMBER			
		2012		2011	
		AED'000	US\$'000	AED'000	US\$'000
ASSETS					
Non-current assets					
Property and equipment	3	3,414	930	3,122	851
Intangible assets	4	2,872	784	3,096	844
		6,286	1,714	6,218	1,695
Current assets					
Prepayments and receivables	5	12,375	3,373	11,903	3,243
Cash and bank balances	6	55,192	15,040	60,139	16,388
		67,567	18,413	72,042	19,631
Total Assets		73,853	20,127	78,260	21,326
EQUITY					
Contributed capital and reserves					
Contributed capital		5,755	1,570	5,755	1,570
Regulatory reserve	2.5	38,118	10,388	27,469	7,485
Litigation reserve	2.6, 9	1,009	274	-	-
Total Equity		44,882	12,232	33,224	9,055
LIABILITIES					
Non-current Liabilities					
Provision for employees' end of service benefits	7	-	-	14,683	4,001
Current Liabilities					
Fee income received in advance	2.3	23,921	6,518	23,993	6,538
Creditors, accruals and other liabilities	8	5,050	1,377	6,360	1,732
		28,971	7,895	30,353	8,270
Total Liabilities		28,971	7,895	45,036	12,271
Total Equity and Liabilities		73,853	20,127	78,260	21,326

These financial statements were approved for issue by the Board of Directors on 12 February 2013.

.....
Signed on behalf of the DFSA Board

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	YEAR ENDED 31 DECEMBER			
		2012		2011	
		AED'000	US\$'000	AED'000	US\$'000
Appropriations from Government	2.4	117,440	32,000	117,440	32,000
Fee income	2.3	35,958	9,798	32,224	8,780
Other income	10	2,505	682	735	200
Total Income		155,903	42,480	150,399	40,980
General and administration expenses	11	(129,973)	(35,412)	(123,700)	(33,700)
Board of Directors' expenses	13	(13,175)	(3,592)	(13,541)	(3,689)
Financial Markets Tribunal and Regulatory Appeals Committee expenses		(1,097)	(299)	(1,083)	(295)
Total Expenses		(144,245)	(39,303)	(138,324)	(37,684)
Surplus for the year		11,658	3,177	12,075	3,296

STATEMENT OF CHANGES IN EQUITY

	Contributed Capital		Regulatory Reserve		Litigation Reserve		Accumulated Surplus		TOTAL	
	AED'000	US\$'000	AED'000	US\$'000	AED'000	US\$'000	AED'000	US\$'000	AED'000	US\$'000
At 1 January 2011	32,180	8,770	-	-	-	-	27,816	7,574	59,996	16,344
Remittance to Government (Note 15)	(26,425)	(7,200)	-	-	-	-	(12,422)	(3,385)	(38,847)	(10,585)
Surplus for the year	-	-	-	-	-	-	12,075	3,296	12,075	3,296
Transfer to regulatory reserve (Note 2.5)	-	-	27,469	7,485	-	-	(27,469)	(7,485)	-	-
At 31 December 2011	5,755	1,570	27,469	7,485	-	-	-	-	33,224	9,055
Surplus for the year	-	-	-	-	-	-	11,658	3,177	11,658	3,177
Transfer to litigation reserve (Notes 2.6,9)	-	-	-	-	1,009	274	(1,009)	(274)	-	-
Transfer to regulatory reserve (Note 2.5)	-	-	10,649	2,903	-	-	(10,649)	(2,903)	-	-
At 31 December 2012	5,755	1,570	38,118	10,388	1,009	274	-	-	44,882	12,232

CASH FLOW STATEMENT

	Notes	YEAR ENDED 31 DECEMBER			
		2012		2011	
		AED'000	US\$'000	AED'000	US\$'000
Operating activities					
Surplus for the year		11,658	3,177	12,075	3,296
Adjustments for the following items:					
Depreciation	3	1,637	446	2,168	589
Amortisation	4	1,795	489	1,552	423
(Profit)/loss on disposal/write off of property and equipment		(59)	(16)	3	1
Provision for employees' end of service benefits	7	4,938	1,346	4,294	1,170
Interest income		(299)	(82)	(715)	(195)
Operating cash flows before payment of employees' end of service benefits, payment of amount payable to Government of Dubai and movements in working capital		19,670	5,360	19,377	5,284
Payment of end of service benefits to employees left	7	(1,907)	(520)	(1,269)	(346)
Payment in relation to end of service benefits on behalf of continuing employees	7	(17,714)	(4,827)	-	-
Amount paid to Government of Dubai from fines collected		(910)	(248)	(612)	(167)
Changes in working capital:					
Prepayments and receivables, net of interest receivable		(505)	(139)	(778)	(211)
Fee income received in advance		(72)	(20)	(1,039)	(283)
Creditors, accruals and other liabilities, net of amount payable to Government of Dubai	8	(400)	(107)	1,021	276
Net cash (used in)/generated from operating activities		(1,838)	(501)	16,700	4,553
Investing activities					
Purchase of property and equipment and intangible assets	3, 4	(3,502)	(955)	(4,201)	(1,146)
Proceeds from sale of property and equipment		61	17	-	-
Decrease/(increase) in balances held in employees' end of service benefits bank accounts	6	14,683	4,001	(2,708)	(738)
Increase in fixed deposit accounts with original maturity of more than three months	6	(5,600)	(1,526)	-	-
Interest received		332	91	841	229
Net cash (used in)/generated from operating activities		5,974	1,628	(6,068)	(1,655)
Financing activities					
Remittance to Government	15	-	-	(38,847)	(10,585)
Net increase/(decrease) in cash and cash equivalents		4,136	1,127	(28,215)	(7,687)
Cash and cash equivalents, beginning of the year	6	45,456	12,387	73,671	20,074
Cash and cash equivalents, end of the year	6	49,592	13,514	45,456	12,387

1 LEGAL STATUS AND ACTIVITIES

The Dubai Financial Services Authority ("DFSA"), was established by Dubai Law No (9) of 2004 as an independent regulatory authority responsible for the regulation of financial and related activities at the Dubai International Financial Centre ("DIFC"). In accordance with Dubai Law No. (9) of 2004, the DFSA is and will continue to be independently funded by the Government of Dubai ("Government") to enable it to exercise its powers and perform its functions.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention.

2.2 Foreign currency translation

The functional currency of the DFSA, being the currency in which the majority of its transactions are denominated, is the Arab Emirates Dirham (AED).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

For presentation purposes only, these financial statements have also been translated into US Dollars at the fixed rate of exchange of US Dollar 1 = AED 3.67.

2.3 Fee income

Application fees are recognised as income when invoiced. Annual fees are recognised as income over the period to which they relate. Fee income received in respect of the following year is treated as fee income received in advance and reflected under current liabilities.

2.4 Funds received from and remitted to Government

Funds received from Government for meeting budgeted operational expenditure for the year are recognised in the statement of financial performance as appropriations from Government.

Funds received from Government for meeting budgeted operational expenditure for the following year are treated as funds received in advance under current liabilities and are appropriated in the financial statements of the following year.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Funds received from and remitted to Government (Continued)

Funds remitted to Government are recognized as an appropriation from accumulated surplus or as a reduction in contributed capital, as appropriate, in the year in which the appropriation is approved by the Board of Directors of the DFSA.

2.5 Regulatory reserve

The regulatory reserve has been set up to meet contingencies arising from the discharge of DFSA's regulatory responsibilities. The directors do not consider this reserve to be distributable and amounts appropriated to it are at the discretion of the directors. Transfers from the regulatory reserve to the accumulated surplus are made to meet contingencies in the year in which these arise.

2.6 Fines, litigation cost recoveries and litigation reserve

Effective from 1 January 2012, fines levied by the DFSA in connection with breaches of regulations in the DIFC together with litigation cost recoveries are recognised on an accrual basis. Income from fines and litigation cost recoveries are credited to the statement of financial performance and transferred to the accumulated surplus or deficit. However as this income is not considered to have been earned in the normal course of business, it is appropriated, net of litigation costs, to the litigation reserve (Note 9).

The directors do not consider the litigation reserve to be distributable but transfers from it to the accumulated surplus or deficit are made to match unforeseen litigation costs, not covered by fines and litigation cost recoveries, in the year in which these arise.

Prior to 1 January 2012, fines levied and collected by the DFSA in connection with breaches of regulations in the DIFC were not considered as income earned by the DFSA in the normal course of business and were remitted directly to Government.

2.7 Employee benefits

Provision is made for the estimated liability for annual leave costs as a result of services rendered by eligible employees up to the balance sheet date. This provision is included in employee related accruals in creditors, accruals and other liabilities.

Provision is made for the full amount of end of service benefits due to non-UAE nationals, in accordance with the Employment Law – DIFC Law No. (4) of 2005, for their periods of service up to the balance sheet date. Until 31 December 2011, this provision was included in non-current liabilities and was fully funded with funds specifically set aside and held in a separate bank account (Note 6). Following the establishment of a DFSA Leaver Benefit Trust ("the trust") during the year ended 31 December 2012, an amount equivalent to the provision made is remitted to the trust (Note 7). End of service benefit distributions to eligible employees are made by the trustee as directed by the DFSA.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Employee benefits (Continued)

Pension contributions in respect of UAE nationals under a defined contribution scheme are recognised as an expense in the period to which they relate.

2.8 Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

	Years
Leasehold improvements	5
Fixtures and fittings	3
Office equipment	3
Computer equipment	3
Motor vehicles	3

Capital work-in-progress, comprising both tangible and intangible assets, is stated at cost and transferred to the appropriate asset category when it is brought into use.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying amounts of the assets disposed of and are taken into account in determining the surplus/deficit for the year. Repairs and renewals are charged to the statement of financial performance when the expense is incurred.

2.9 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and are amortised over their expected useful lives of 3 years.

2.10 Fees, fines and litigation costs receivable

Fees, fines and litigation costs receivables are carried at anticipated realisable value. Specific provision is made for fees, fines and litigation costs receivable that are considered doubtful for recovery. Bad debts are written off during the period in which they are identified.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances in current and call accounts with bank, and fixed deposit accounts with original maturity of less than three months or equal to three months.

2.12 Provisions

Provisions are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation arising as a result of past events and a reliable estimate of the amount of the obligation can be made.

APPENDIX 1 (CONTINUED)
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 DECEMBER 2012 (CONTINUED)

3 PROPERTY AND EQUIPMENT

	Leasehold improve- ment	Fixtures and fit- tings	Office equip- ment	Computer equip- ment	Motor vehicles	Capital work in progress	TOTAL
In AED'000							
Cost							
At 1 January 2012	13,878	4,057	877	11,130	229	28	30,199
Additions	128	53	117	1,309	-	1,780	3,387
Transfer from capital work in progress	-	-	-	104	-	(104)	-
Transfer to intangible assets (Note 4)	-	-	-	-	-	(1,456)	(1,456)
Disposals/write off	-	(3)	(124)	(198)	(229)	-	(554)
At 31 December 2012	14,006	4,107	870	12,345	-	248	31,576
Depreciation							
At 1 January 2012	13,630	4,002	817	8,399	229	-	27,077
Charge for the year	94	31	40	1,472	-	-	1,637
Disposals/write off	-	(3)	(123)	(197)	(229)	-	(552)
At 31 December 2012	13,724	4,030	734	9,674	-	-	28,162
Net book amounts							
At 31 December 2012	282	77	136	2,671	-	248	3,414
At 31 December 2011	248	55	60	2,731	-	28	3,122
In US\$'000							
Cost							
At 1 January 2012	3,782	1,105	239	3,033	62	8	8,229
Additions	35	14	32	357	-	485	923
Transfer from capital work in progress	-	-	-	28	-	(28)	-
Transfer to intangible assets (Note 4)	-	-	-	-	-	(397)	(397)
Disposals/write off	-	(1)	(34)	(54)	(62)	-	(151)
At 31 December 2012	3,817	1,118	237	3,364	-	68	8,604
Depreciation							
At 1 January 2012	3,714	1,090	223	2,289	62	-	7,378
Charge for the year	26	8	11	401	-	-	446
Disposals/write off	-	(1)	(33)	(54)	(62)	-	(150)
At 31 December 2012	3,740	1,097	201	2,636	-	-	7,674
Net book amounts							
At 31 December 2012	77	21	36	728	-	68	930
At 31 December 2011	68	15	16	744	-	8	851

APPENDIX 1 (CONTINUED)
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 DECEMBER 2012 (CONTINUED)

4 INTANGIBLE ASSETS

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Cost				
At 1 January	9,964	2,715	8,020	2,185
Additions	115	32	-	-
Transfer from capital work in progress (Note 3)	1,456	397	1,944	530
At 31 December	11,535	3,144	9,964	2,715
Amortisation				
At 1 January	6,868	1,871	5,316	1,448
Amortisation	1,795	489	1,552	423
At 31 December	8,663	2,360	6,868	1,871
Net book amount at 31 December	2,872	784	3,096	844

Intangible assets represent purchased software.

5 PREPAYMENTS AND RECEIVABLES

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Prepayments	12,116	3,302	11,816	3,219
Staff advances	101	27	24	7
Other receivables	158	44	63	17
	12,375	3,373	11,903	3,243

6 CASH AND BANK BALANCES

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Cash in hand	19	6	13	4
Current accounts	21,273	5,797	16,836	4,588
Fixed deposit accounts	33,900	9,237	43,290	11,796
Total cash and bank balances	55,192	15,040	60,139	16,388
Less: Balances held in employees' end of service benefits bank accounts	-	-	(14,683)	(4,001)
Less: Fixed deposit accounts with original maturity of more than three months	(5,600)	(1,526)	-	-
Cash and cash equivalents	49,592	13,514	45,456	12,387

Balances held in employees' end of service benefits bank accounts as at 31 December 2011 represent funds specifically set aside to meet the DFSA's obligation in respect of employees' end of service benefits (Note 2.7), and, accordingly, these funds were not available to finance for the day to day operations of DFSA.

APPENDIX 1 (CONTINUED)
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 DECEMBER 2012 (CONTINUED)

6 CASH AND BANK BALANCES (Continued)

All bank balances are held with a bank licensed in the United Arab Emirates. The interest rate on fixed deposit accounts was in the range of 0.34% to 0.54% per annum for the year ended 31 December 2012 (2011: 0.63% to 1.07%).

7 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
At the beginning of the year	14,683	4,001	11,658	3,177
Provision made during the year (see below)	4,938	1,346	4,294	1,170
Payments to employees during the year	(1,907)	(520)	(1,269)	(346)
Payments to the trust	(17,714)	(4,827)	-	-
At the end of the year	-	-	14,683	4,001

a) The provision made during the year is charged as follows:

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Staff costs (Note 12)	4,855	1,323	4,201	1,145
Other board expenses	83	23	93	25
	4,938	1,346	4,294	1,170

b) During the year ended 31 December 2012, DFSA established a Dubai Financial Services Authority Leaver Benefit Trust ("the trust") under the laws of the Island of Jersey, to provide end of service benefits to DFSA's employees. DFSA will remit to the trust amounts equivalent to the end of service benefit provision previously made at regular intervals. Monies remitted to the trust will be placed in a separate bank account in Jersey on behalf of DFSA's employees. The trustee will make end of service benefits distributions to eligible employees as directed by the DFSA. As at 31 December 2012, the amount kept under the trust is AED 17,713,885 (USD 4,821,376) (2011: Nil).

8 CREDITORS, ACCRUALS AND OTHER LIABILITIES

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Trade creditors	2,037	556	1,805	492
Employee related accruals	1,887	514	2,172	592
Other accruals	1,126	307	1,473	400
Amount payable to Government (i)	-	-	910	248
	5,050	1,377	6,360	1,732

(i) The amount payable to Government at 31 December 2011 represents fines levied and collected by the DFSA in connection with the breach of regulations in the DIFC.

APPENDIX 1 (CONTINUED)
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 DECEMBER 2012 (CONTINUED)

9 APPROPRIATION TO LITIGATION RESERVE

	YEAR ENDED			
	31 December 2012		31 December 2011	
	AED'000	US\$'000	AED'000	US\$'000
Fines levied and Litigation cost recoveries (Note 10)	2,132	580	-	-
Less: Litigation costs incurred	(1,123)	(306)	-	-
Amount appropriated to litigation reserve	1,009	274	-	-

Litigation costs incurred are included in legal, consultancy and professional fees under general and administration expenses (Note 11).

10 OTHER INCOME

	YEAR ENDED			
	31 December 2012		31 December 2011	
	AED'000	US\$'000	AED'000	US\$'000
Fines levied and Litigation cost recoveries	2,132	580	-	-
Interest on fixed deposits	299	82	715	195
Profit on sale of motor vehicle	59	16	-	-
Others	15	4	20	5
	2,505	682	735	200

11 GENERAL AND ADMINISTRATION EXPENSES

	YEAR ENDED			
	31 December 2012		31 December 2011	
	AED'000	US\$'000	AED'000	US\$'000
Staff costs (Note 12)	103,633	28,238	97,982	26,700
Office rent	6,024	1,641	6,001	1,635
Training, conferences and seminars	3,659	997	3,817	1,040
Communication and IT systems and equipment maintenance	3,391	924	3,259	889
Legal, consultancy and professional fees	2,609	710	2,228	607
Amortisation (Note 4)	1,795	489	1,552	423
Depreciation (Note 3)	1,637	446	2,168	589
Recruitment costs	1,312	357	864	236
Marketing expenses	779	212	771	210
Vehicle lease and maintenance	226	62	277	76
Loss on write off of property and equipment	-	-	3	1
Other expenses	4,908	1,336	4,778	1,294
	129,973	35,412	123,700	33,700

APPENDIX 1 (CONTINUED)
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
 31 DECEMBER 2012 (CONTINUED)

12 STAFF COSTS

	YEAR ENDED			
	31 December 2012		31 December 2011	
	AED'000	US\$'000	AED'000	US\$'000
Salaries	58,686	15,990	54,247	14,781
Other benefits	40,092	10,925	39,534	10,774
Employees' end of service benefits (Note 7)	4,855	1,323	4,201	1,145
	103,633	28,238	97,982	26,700

13 BOARD OF DIRECTORS' EXPENSES

	YEAR ENDED			
	31 December 2012		31 December 2011	
	AED'000	US\$'000	AED'000	US\$'000
Retainer fees	5,276	1,438	5,347	1,457
Attendance fees	2,587	705	2,807	765
Travelling expenses	2,343	639	2,555	696
Others expenses	2,969	810	2,832	771
	13,175	3,592	13,541	3,689

14 OPERATING LEASE COMMITMENTS

The lease commitments under non-cancellable operating leases are as follows:

	2012		2011	
	AED'000	US\$'000	AED'000	US\$'000
Not later than 1 year	6,001	1,635	6,001	1,635
Later than 1 year and no later than 5 years	-	-	6,001	1,635
	6,001	1,635	12,002	3,270

15 REMITTANCE TO GOVERNMENT

At the meeting of the Board of Directors held on 9 June 2011, the Board approved a remittance to Government of Dubai of AED 12,422,000 (US\$ 3,385,000) from accumulated surplus and AED 26,425,000 (US\$ 7,200,000) from contributed capital. Accordingly, these amounts have been reflected as remittance to Government in the statement of changes in equity for the year ended 31 December 2011.

APPENDIX 2

BOARD AND SENIOR OFFICERS REMUNERATION DISCLOSURE

Disclosure of Remuneration:

The following table sets forth the total remuneration received or due and receivable for the fiscal year ended December 31, 2012 and December 31, 2011 by the Board and Senior Officers of the DFSA.

Remuneration of the Chairman and Non-Executive Board Members:

Remuneration bands Amounts in US\$	2012 Board Members	2011 Board Members
\$100,001 to \$200,000	5	9
\$200,001 to \$250,000	5	2
>\$250,001	1	1
	<u>11</u>	<u>12</u>
	2012 US\$	2011 US\$
The aggregate amount of remuneration of non-Executive members of the Board shown above:	2,469,269	2,485,532

Notes:

- 1) Remuneration is pro-rated based on actual duration of service during the year.
- 2) Remuneration of non-Executive Board members is comprised primarily of an annual retainer plus meeting attendance fees (for meetings of the full Board and its committees). Travel allowances are also paid. Board retainer fees during 2012 were USD \$93,207 (Chairman's retainer fee was USD \$380,000 per annum). Board meeting attendance fees were USD \$6,779 per meeting (Chairman's meeting attendance fee was USD \$13,000 per meeting).
- 3) Committee membership fees during 2012 were USD \$6,779 per Committee (Committee Chairman fee was USD \$13,557). Committee meeting attendance fees were USD \$2,711 per meeting.
- 4) The Chairman of the DFSA does not receive fees for membership of Committees or for attendance at Committee meetings. The Chief Executive of the DFSA does not receive fees for membership of the Board or its Committees or for attendance at Board meetings or Committee meetings. Other members of the Executive who serve as members of Board Committees or attend Board meetings also do not receive fees for such membership or attendance.

APPENDIX 2 (CONTINUED)

Remuneration of the Chief Executive and Senior Officers:

Remuneration bands Amounts in US\$	2012 Executives	2011 Executives
\$10,001 to \$200,000	2	1
\$200,001 to \$300,000	1	2
\$300,001 to \$400,000	2	1
\$400,001 to \$900,000	12	12
>\$900,000	<u>2</u>	<u>1</u>
	19	17
	2012 US\$	2011 US\$
The aggregate amount of remuneration of executives shown above:	10,025,014	8,997,562
Executives remuneration included in the above comprised:	2012 US\$	2011 US\$
Salaries and Performance Bonuses	7,136,256	6,529,870
Other emoluments and benefits	2,888,758	2,467,692

Notes:

- 1) Salaries and bonuses are pro-rated based on actual duration of service during the year.
- 2) Other emoluments and benefits include housing allowance, flight allowance, education allowance, premium paid for medical and life insurance and end of service accrual for the year 2012.

APPENDIX 3

AUTHORISED FIRMS LICENSED IN 2012

3 Capital Limited
A.M. Best Europe - Rating Services Limited
Abu Dhabi Capital Management Limited
Affiliated Managers Group Limited
Ajeej Capital (DIFC) Limited
AlphaLeo Capital Advisors Limited
Aon Benfield Middle East Limited
Asiya Investments (Dubai) Limited
Bank of China Middle East (Dubai) Limited
Cerberus Middle East Capital Advisors Limited
CIMD (Dubai) Limited
Coutts & Company
Eagle Investments Limited
Fajr Capital Advisors Limited
FalCap Limited
Fulcrum Capital (Dubai) Limited
Guy Carpenter Middle East Limited
Havenvest Private Equity Middle East Limited
ICAP Securities Limited
Janus Capital International Limited
Lingohr & Partner Asset Management GmbH
Moelis & Company UK LLP, DIFC Branch
Moody's Investors Service Middle East Limited
NBAD Investment Management (DIFC) Limited
NBE (DIFC) Limited
Neuberger Berman Europe Limited
NJ GlobalInvest Limited
Perella Weinberg Partners UK LLP
Probus Middle East Limited
Prometheus Capital Finance Limited
Royal & Sun Alliance Insurance plc
Samena Capital Investments Limited
Sanne Group (Dubai) Limited
Simmons and Company International Limited
Standard & Poor's Credit Market Services Europe Limited
Standard Life International Limited
Stonehage Trust Holdings (Jersey) Limited
Swiss Re Corporate Solutions Limited
Swissquote Bank MEA Limited
The Royal Bank of Scotland plc
Wells Fargo Bank, National Association

Refer to the DFSA website for the full public register of all Authorised Firms.

APPENDIX 4

ANCILLARY SERVICE PROVIDERS REGISTERED IN 2012

Addleshaw Goddard (Middle East) LLP
Berwin Leighton Paisner LLP
Cotty Vivant Marchisio & Lauzeral (UAE) Limited
Dechert LLP

Refer to the DFSA website for the full public register of all Ancillary Service Providers.

APPENDIX 5

AUDITORS REGISTERED IN 2012

Meralis Chartered Accountants & Registered Auditors
Sangani & Company

Refer to the DFSA website for the full public register of all Registered Auditors.

APPENDIX 6

MEMBERS OF AUTHORISED MARKET INSTITUTIONS RECOGNISED IN 2012

Marex North America LLC
Mena Corp Financial Services LLC

DME
NASDAQ Dubai

Refer to the DFSA website for the full public register of all Authorised Market Institutions.

APPENDIX 7

EXCHANGES ADMITTED TO THE LIST OF RECOGNISED BODIES IN 2012

Tokyo Commodity Exchange, Inc

Refer to the DFSA website for the full Public Register of all Recognised Bodies.

APPENDIX 8

DFSA ADMINISTERED LAWS AND RULES in 2012

DFSA LAWS

The following Laws were enacted by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, in his capacity as Ruler of Dubai:

- The Markets Law 2012 (DIFC Law 1 of 2012) which replaced the original Markets Law 2004 and brought about a number of significant changes designed to promote investor protection in a manner that better aligns the DIFC to international standards including enhancements to the:
 - Prospectus disclosure regime to better align our regime with the EU approach reflected in the Prospectus Directive;
 - Governance requirements applicable to Reporting Entities, including a reformulation of the corporate governance principles to better align our requirements to the UK Corporate Governance Code;
 - Market abuse provisions to better align those with the EU approach as reflected in the Markets Abuse Directive; and
 - Requirements relating to Listed Collective Investment Funds.
- The Regulatory Law Amendment Law 2012 (DIFC Law 2 of 2012), which implemented consequential amendments due to the relocation of the Recognised Persons regime to the new Markets Law.
- The DIFC Laws Amendment Law 2012 (DIFC Law 7 of 2012) which made amendments to the Regulatory Law 2004 to:
 - Expand the jurisdiction of the Regulatory Appeals Committee to hear appeals of decisions of the DFSA:
 - (a) Relating to imposing administrative fines and censures on persons regulated by the DFSA; and
 - (b) Made under the new Article 75A of the Regulatory Law 2004.
 - Introduce changes in respect of controllers to:
 - (a) Enable the DFSA to withdraw the license of an Authorised Person, where such person does not take an action required by the law; and
 - (b) Expand the DFSA's powers in respect of controllers whereby the DFSA is able to impose conditions on Authorised Persons and not just withdraw their Authorisation.
 - Enable the DFSA, for prudential purposes, to issue a direction to a particular Authorised Firm, or Authorised Firms within a specified class to take specified action under Article 75A of the Regulatory Law 2004.
 - Relocate a number of enforcement related provisions contained in the DFSA Rulebook with their substantive provisions to the Regulatory Law 2004.

APPENDIX 8 (CONTINUED)

- Amend the definition of 'Privileged Communication' (in Schedule 1 of the Regulatory Law 2004) as requested by the OECD Global Forum through the Ministry of Finance in order to ensure that the UAE complies with the OECD principles on the exchange of information between countries for tax purposes.

The Amendment Law also made consequential changes to the Collective Investment Law 2010 and the Law Regulating Islamic Financial Business 2004 in relation to the introduction of the new Markets Law 2012.

DFSA RULES

The following amendments were issued by the DFSA, with respect to its Rulebook and Sourcebook:

- Notice of Amendment dated 18 June 2012 and rulemaking instruments 81, 83 and 87-95, introduced:
 - New Markets Rules in line with the new Markets Law 2012 as above;
 - Enhancements to the current corporate governance requirements applicable to Authorised Persons ; and
 - A new overarching standard relating to remuneration practices, to better align the DIFC to international standards.
- Notice of Amendment dated 24 July 2012 and rulemaking instruments 96 – 104 introduced:
 - A new CRA regime, designed to meet the IOSCO standards relating to the regulation of CRAs; and
 - Enhancements to promote compliance with the principles of the international standard-setters in the financial sector, namely Basel, the IAIS and IOSCO in preparation for a Financial Sector Assessment Programme assessment (FSAP) of the UAE.
- Notice of Amendment dated 19 December 2012 and rulemaking instruments 105 – 110 and 116 made enhancements to:
 - The DFSA's policies and processes relating to the exercise of supervisory and enforcement powers (the Regulatory Policy and Process Sourcebook);
 - Shari'a Governance and Accounting and Auditing Standards for Islamic Firms and Securities; and
 - The provisions relating to Controllers and Legal Forms of Authorised Persons.
- Notice of Amendment dated 15 October 2012 and Rulemaking Instruments 111 – 115, introduced a new PIB module of the DFSA Rulebook and consequential amendments to a number of other modules implementing the Basel III framework in preparation for the FSAP of the UAE.

Refer to the DFSA website for all DFSA administered Laws and Rules.

APPENDIX 9

MEMORANDA OF UNDERSTANDING SIGNED IN 2012

MULTI-LATERAL MoU

International Organisation of Securities Commissions Africa and Middle East Regional Committee

BI-LATERAL MoUs

China The China Banking Regulatory Commission (supplementary agreement on co-operation)

Japan The Ministry of Economy, Trade and Industry and the Ministry of Agriculture, Forestry and Fisheries

US The Public Company Accounting Oversight Board.

Refer to the DFSA website for a full list of all MoUs signed by the DFSA.

APPENDIX 10

GLOSSARY

AF	Authorised Firms
AI	Authorised Individual
AMERC	Africa and Middle East Regional Committee
AMI	Authorised Market Institution
AML	Anti-Money Laundering
AMLSCU	Anti-Money Laundering Suspicious Cases Unit
ASIC	Australian Securities and Investments Commission
ASP	Ancillary Service Providers
BCBS	Basel Committee for Banking Supervision
CBRC	China Banking Regulatory Commission
CBUAE	The Central Bank of the United Arab Emirates
CFT	Combating the Financing of Terrorism
COB	Conduct of Business
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
CRA	Credit Rating Agency
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
DIFCA	Dubai International Financial Centre Authority
DME	Dubai Mercantile Exchange
DNFBP	Designated Non-Financial Businesses and Professions
EU	European Union
FATF	Financial Action Task Force
FMT	Financial Markets Tribunal
FRB	Federal Reserve Bank
GEN	General
HR	Human Resources
IA	Insurance Authority of the UAE
IAIS	International Association of Insurance Supervisors
IFSB	Islamic Financial Services Board
IOSCO	International Organisation of Securities Commissions
IT	Information Technology

APPENDIX 10 (CONTINUED)

LegCo	Legislative Committee
MENA	Middle East and North Africa
MKT	Markets
MMoU	Multi-lateral Memoranda of Understanding
MoU	Memoranda of Understanding
OCC	US Comptroller of the Currency
OECD	Organisation for Economic Co-operation and Development
OTC	Over-The-Counter
P&L	Policy and Legal Services Division
PCAOB	Public Company Accounting Oversight Board
PIB	Prudential - Investment, Insurance Intermediation and Banking
PIN	Prudential Insurance
PwC	PricewaterhouseCoopers
RA	Registered Auditors
RAC	Regulatory Appeals Committee
RemCo	Remuneration Committee
RoC	Registrar of Companies
SCA	Emirates Securities and Commodities Authority
SFC	Securities and Futures Commission
SIFI	Systemically Important Financial Institutions
STR	Suspicious Transaction Reporting
TRL	Tomorrow's Regulatory Leaders
UK FSA	United Kingdom Financial Services Authority
US	United States











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