Dubai Financial
Services Authority

BY EMAIL

24 March 2020

To: Senior Executive Officers ("SEO") of DFSA Authorised Firms

RE: The DFSA response to Covid-19

Dear SEO,

Over the last few weeks the world has witnessed the rapid spread of the coronavirus ("Covid-19"). These unprecedented circumstances continue to disrupt the business operating environment and severely impact economic activities globally.

The Government of the UAE and the Dubai Government are acting decisively to ensure the safety and the wellbeing of the local community. These authorities, as well the Central Bank of the UAE ("CBUAE"), have taken a number of measures to support the UAE economy. The DFSA strongly supports these measures and continues to maintain close and regular contact and in order to share relevant information with the CBUAE. The DFSA, as always, supports the CBUAE mission to maintain and foster financial stability in the UAE.

DFSA Operational Continuity

The DFSA is taking all necessary proactive and precautionary measures to help Dubai and the UAE in their efforts to contain the spread of Covid-19 and will continue to work closely with all government agencies in that respect. The DFSA has implemented necessary operational measures to ensure it continues to perform its mission and duties efficiently and with minimal disruption. The DFSA's investments in regulatory technology and digitalisation provide improved functionality to firms and support for alternative working arrangements.

Engagement with International Regulators

As the Dubai International Financial Centre ("DIFC") is a global hub for financial services, the DFSA engages with international standards setters and maintains close and regular contact with other financial services regulatory and supervisory authorities, particularly those representing home jurisdictions of firms operating in the DIFC. The DFSA will continue to engage with the international regulatory community through these difficult times.

Engagement with Authorised Firms

The DFSA will continue to engage proactively with the regulated community in the DIFC to assess the immediate and longer-term impact of this unprecedented global situation, and to intervene, as needed, to ensure financial stability and consumer protection.

The DFSA stands ready to work closely with each Authorised Firm. Our regulatory approach will continue to be risk-based and we will attempt to avoid any unnecessary regulatory burdens. In times like these, timely communication and cooperation between regulators and the regulated community is critical and cannot be stressed enough. The DFSA encourages all Authorised Firms to maintain active and regular contact with the DFSA and to approach the DFSA if they have specific queries or issues. Moreover, the DFSA expects all Authorised Firms to provide prompt notifications of any significant developments, events, or other matters reasonably expected to be reported to the DFSA. This will help both the DFSA and Authorised Firms work together openly and cooperatively in dealing with any challenge. For further clarity, we have included as Annex A to this letter a non-exhaustive list of indicators which Authorised Firms should monitor closely and report to the DFSA in the event of any significant change or deterioration.

Authorised Firms' Financial Resilience

International regulatory standards, implemented by the DFSA, have strengthened the resilience of the financial system over the past decade. Financial institutions incorporated in the DIFC, including banks, continue to hold comfortable levels of capital and liquidity buffers, in terms of both quantity and quality, well above minimum regulatory requirements. These buffers are specifically designed to be used in stressed periods, such as what we are experiencing now, to support the real economy and to absorb losses. The DFSA's recent stress test shows that DIFC banking subsidiaries would be resilient to a prolonged economic stressed period.

Authorised Firms' Operational Resilience

The DFSA issued a "Dear SEO" letter on 08 March 2020 on "Operational Resilience Measures." Authorised Firms in the DIFC have so far demonstrated satisfactory operational resilience dealing with current circumstances, and have kept the DFSA updated of measures implemented in that respect. The DFSA also issued a "Dear SEO" letter on 23 March 2020 on "Cyber Risk Monitoring and Reporting." We continue to encourage the DIFC regulated community to exercise vigilance against potential increase in cyberattacks, phishing attempts and fraud.

The DFSA remains ready to consider all appropriate measures aimed at supporting the financial and operational resilience of the Authorised Firms. The DFSA will also support all decisions made by the UAE and the Dubai Governments to support the UAE economy, and actions by the CBUAE to maintain financial stability in the UAE. These measures are vital so that the UAE, Dubai and the DIFC, along with other markets around the globe, can recover quickly and with strength when the current situation passes, as it will.

If you have any questions in relation to this letter, please contact us using the DFSA Supervised Firm Contact Form found on the DFSA website.

Yours Sincerely,

Bryan Stirewalt
Chief Executive

Copy to: Finance Officers of Authorised Firms
Compliance Officers of Authorised Firms

Level 13, The Gate, PO Box 75850, Dubai, UAE
Telephone: +971 (0)4 362 1500
Fax: +971 (0)4 362 0801

Dubai Financial Services Authority

Appendix A – List of Indicators

List of indicators (non-exhaustive) which Authorised Firms ("AF") must closely monitor as relevant. Any significant change or deterioration in any of these indicators – where relevant – must be reported to the DFSA. Notification must be made even if an event does not constitute a breach of a regulatory requirement as per the DFSA Rulebook, where applicable. Any anticipation of challenges in maintaining compliance or meeting obligations as they fall due must be reported immediately without delays. When reporting to the DFSA, AF should provide as much available information as possible.

All Authorised Firms:

Some of the events and indicators expected to be monitored and reported:

- **General**
  e.g. material update to the AF business model or its annual operating plan, the results of any assessment conducted on the potential impact of the current situation on the AF financial position, the results of stress tests conducted by the AF or at Group/Parent Entity level if relevant, early indications of potential change to the AF – or the parent entity – credit rating, potential changes to the outsourcing arrangement of any of the critical functions, or other indicators relevant to each AF.

- **Capital Resources** *(All AF operating as subsidiaries)*
  e.g. signs of potential deterioration in Capital Resources (due to foreseen or unforeseen losses). AF in Category 3B, 3C and 4 are also reminded of the requirement under PIB Rule 3.2.6. (notify the DFSA if Capital Resources fall below 120% of Capital Requirements).

- **Liquid Assets** *(All AF in Category 3B, 3C and 4)*
  e.g. signs of potential deterioration in liquid assets (as required in PIB Rule 3.5.3)

Authorised Firms licensed to Provide the Financial Service activities of:

<u>Accepting Deposits and/or Providing Credit</u>

Liquidity and asset quality are to be continuously monitored. Events of significant deterioration must be reported immediately. Some of the risk indicators expected to be monitored and reported:

- **Liquidity Risk Indicators**
  e.g. signs of potential activation of the contingency funding plan, significant deterioration in the Liquidity Coverage Ratio ("LCR"), Net Stable Funding Ratio ("NSFR") and the net cumulative Maturity Mismatch position (mainly for the sight - 8 days time band, but also significant changes in other time bands), large deposit withdrawals (incl. requests to withdraw deposits before maturity, unusual requests not to renew deposits, etc.), significant reduction in wholesale funding, inability to obtain interbank funding (incl. requests to withdraw funding before maturity), freeze in repo markets, large drawdowns, increased collateral posting requirements, increase in funding costs, or other indicators relevant to each AF.

Level 13, The Gate, PO Box 75850, Dubai, UAE
Telephone: +971 (0)4 362 1500
Fax: +971 (0)4 362 0801

- **Asset Quality Risk Indicators**
  e.g. material increase in non-performing loans, increase in delinquencies, large scale of credit downgrades, large number of restructurings, or other indicators relevant to each AF.

Dealing in Investments as Principal

For AF holding a trading book or financial securities that are marked to market ("MTM"), some of the risk indicators expected to be monitored and reported include:

- **Market Risk Indicators**
  e.g. significant increase in volatility or returns, increase of value at risk, unexpected increase in haircuts on collateral, large MTM losses, or other indicators relevant to each AF.

Dealing in Investments as Agent *(including Dealing in Investments as Principal on a Matched Principal basis)*

Some of the risk indicators expected to be monitored and reported:

- **Financial securities Brokerage**
  e.g. plans to change margin requirements (whether for retail or professional clients; AF are expected not to offer higher leverage limits in current circumstances), significant reduction in trading volumes, large losses in client portfolios, significant change in brokerage fees or other revenue streams, increases in clients' failure to fulfil margin calls and/or position close-outs, signs of potential disruptions to execution venues or settlement and delivery processes, malfunctioning or outage in the trading platform, increase in complaints, or other indicators relevant to each AF.

Managing Assets

Some of the risk indicators expected to be monitored and reported:

- **Assets Under Management ("AUM")**
  e.g. large outflows of AUM's, large losses, significant chnage in AUM fees, increase in complaints, or other indicators, or other indicators relevant to each AF.

Providing Custody or Holding Client Assets

Some of the risk indicators expected to be monitored and reported:

- **Assets under custody**
  e.g. deterioration of the credit quality of the custody provider or any of sub custodians, large outflow of assets under custody, or other indicators relevant to each AF.

<u>Insurance, Insurance Intermediaries and Insurance Management</u>

Some of the risk indicators expected to be monitored and reported:

- **Insurance Claims**
  e.g. significant increase in insurance claims (generally or in relation to any particular key line of insurance), signs of significant increase in claims for the remainder of the year, denial of claims due to exclusions, or other indicators relevant to each AF.

<u>Operating a Crowdfunding Platform</u>

Some of the risk indicators expected to be monitored and reported:

- **Loan, investment, and property**
  e.g. material increase in the number and/or value of overdue loan payments and the deterioration or failure of equity issuers, material deterioration in borrower/issuer/seller and/or lender/investor activity, material increases in property vacancies, or other indicators relevant to each AF.