

**BY EMAIL ONLY**

13 March 2014

To the Senior Executive Officers of DFSA Authorised Firms

**RETAIL FOREIGN EXCHANGE (“RFX”) TRANSACTIONS IN THE DIFC**

Dear SEO

In recent times, the DFSA has been receiving increased interest from Authorised Firms, and from applicants, to offer foreign exchange trading to retail customers in or from the DIFC. The DFSA is minded to allow this activity, keeping in mind certain legal limitations and systems and controls requirements. The legal limitations revolve around UAE Federal Law prohibitions on banking activity in the UAE Dirham. Many, but not all, of the systems and control requirements deemed necessary to address the associated risks with this activity are highlighted below.

**Existing Framework**

1. *Licensing requirements*

All Firms providing services in respect of RFX in the Centre must obtain a retail endorsement and obtain the necessary waiver from GEN 2.2.4. We also remind all Firms that transactions in UAE Dirhams are strictly prohibited in the centre.

2. *Compliance with relevant provisions of the DFSA rulebook*

All Firms should be aware of their obligations in relation to existing Prudential and Conduct Rules that include Systems and Controls requirements together with specific obligations in respect of client on-boarding, client agreements as well as Anti-Money Laundering rules surrounding these transactions.

3. *Front, middle and back office controls*

The DFSA expects all Firms engaged in principal and agency trading to have a range of front, middle and back office controls commensurate with the level and depth of operations conducted by each Firm. These include intra-day and end-of-day counterparty and settlement limits, segregation of functions and other risk measures such as appropriate position limits and controls as a part of the overall Systems and Controls requirements.

## **Additional RFX Controls**

The following control measures should be implemented by each Firm prior to the commencement of any RFX activity in the centre:

1. *A standard risk disclosure statement*

The DFSA developed a standard RFX disclosure statement. This disclosure must be supplemented by other necessary disclosures relevant to the particulars of your Firm's business, and it must be signed by each RFX client prior to commencing any RFX activity. This disclosure is available on the DFSA website and can be accessed through this [Link](#).

2. *Verification of equivalent regulation in the jurisdiction(s) where the RFX transactions are conducted*

This control applies to Firms that introduce/refer clients to other trading centres or operate in an arranging capacity. These Firms are required to confirm that the jurisdiction to which the DFSA clients are introduced or referred (and/or where the accounts are maintained) has equivalent or super-equivalent controls as outlined in this memorandum and summarised further in Appendix I. As part of this confirmation, each Firm will be required to submit a gap analysis of regulatory equivalency at the time it submits its application to offer services in RFX products. Firms currently offering RFX products, in any capacity within the Centre, must conduct the gap analysis within three months of the date of this letter.

The DFSA will only consider those jurisdictions where the DFSA has a Memorandum of Understanding ("MoU") with the primary financial services regulator. A list of those jurisdictions where the DFSA has an MoU can be accessed through this [Link](#).

3. *A verified track record of the Firm or the group to which the Firm belongs and minimum relevant experience thresholds on compliance and client facing staff*

Firms proposing to offer RFX products within the Centre are required to demonstrate five years of experience in providing services in RFX products under the supervision of a financial services regulator. In addition, those Firms engaged in principal and agency trading must have compliance and client facing staff with relevant RFX experience of no less than three years.

4. *Segregation and monitoring of clients who are initially on-boarded through the DIFC entity*

Any Firm that introduces or refers clients to another jurisdiction must maintain a record of all introduced and referred clients from the DIFC. Further, the file must include all complaints and suspicious transaction reports lodged by each client.

5. *Advertising file*

Copies of advertising documents used in the UAE should be available on-site in each Firm.

6. *Margin Requirements*

a. Margin and Maximum Margin Limit (“MML”) requirements on margin deposits will be applicable to those Firms operating in an agency or principal capacity. A minimum margin of 2% and 5% (50 to 1 and 20 to 1 leverage) for major and other currency pairs should apply to all margin deposits. All Firms should contact the Supervision Division for further guidance on the scope of currency pairs.

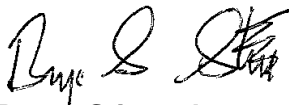
b. Authorised Firms acting in an advisory capacity must adhere to the MML on margin deposits.

The MML requires Firms who engage clients from the DIFC to set a limit on the maximum amount of margin deposit the clients will post. This will be based on the net assets of the client at the time of the client on-boarding. This is determined to be 5% of the net assets as described under existing client classification rules (COB 2).

The following tables (overleaf) provide a high level outline of existing controls as well as additional controls deemed necessary by the DFSA with regard to the offering of services in RFX products. The cascading application of these controls must be implemented by all Firms offering services in RFX products.

If you have any questions regarding these controls, do not hesitate to contact your Relationship Manager.

Yours sincerely



**Bryan Stirewalt**  
**Managing Director, Supervision**

Referrals	Arranging	Advising –	Dealing in Investments as Agent:	Dealing in Investments as Principal:
COB 2 – Client Classification				
AMLR				
			COB APP 2 Key Information and Client Agreement	
			GEN – Overall - including Principles and specifically GEN 9 – Complaints Handling for Retail clients and GEN 5 – Management, Systems and Controls	
			COB APP 1 Minimum Contents of Transactions records	
			COB APP 3 Confirmations	
			PIB CAT 3A Capital \$500K	
			COB 4- Additional Rules 4.3 – Providing Credit – No UAE Dirham	
			PIB – app 4 – Credit Risk (Systems and Controls – counterparty risk assessment)	
			PIB CAT 2 Capital \$2 Million plus other respective PIB Sections as applicable	
			COB 6 – Additional Rules, Investment Business (Client Money)	
			COB APP 6 Client Money Provisions	

Referrals	Arranging	Advising	Dealing in Investments as Agent:	Dealing in Investments as Principal:
		-		
Disclosure Statement				
Equivalent Jurisdiction				
Track record requirements on Firms				
List of clients, complaints and maintenance of advertising documents				
			Applicable to those operations that include Advising and beyond: Compliance, sales and operational staff to have Retail FX experience and/or qualifications	
			Applicable to those operations that include Advising and beyond: MML	
			Margin Requirements as outlined under this memorandum which sets 50 and 20 times leverage or 2% and 5% margin requirements on major and other currency pairs	