



# **DIFC - Shari'a Systems, Rule Developments & Funds Review**

**9<sup>th</sup> Annual Islamic Finance Summit  
24<sup>th</sup> February 2010**

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# Agenda

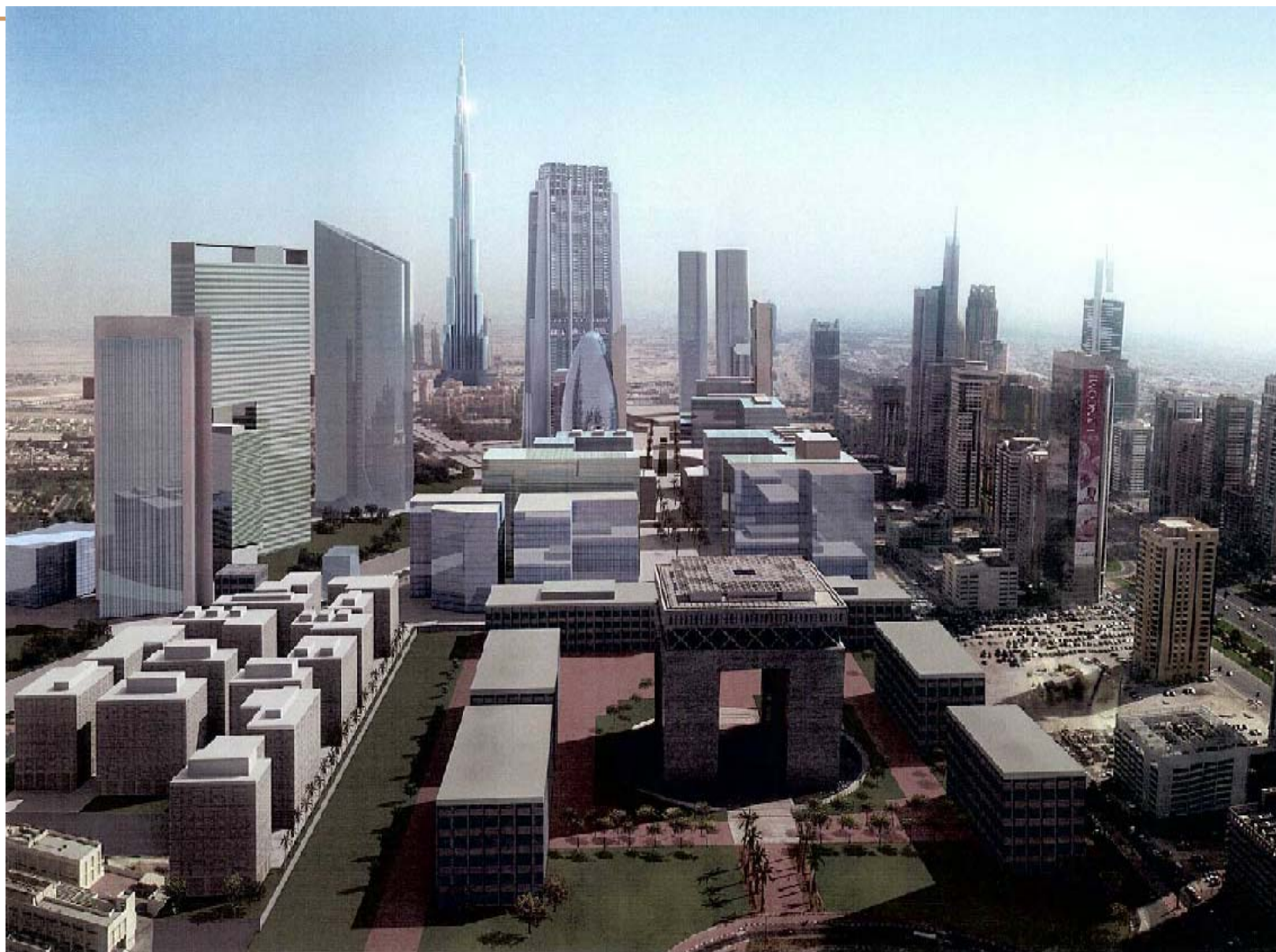
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- Context
- Islamic Finance Rule Changes
- Shari'a Governance
- DFSA - Shari'a Systems Approach
- Dubai International Financial Centre (DIFC)
  - at epicentre where East meets West
- Funds review - Market Practitioner Panel
- IFSB / AAOFI Initiatives

# Dubai in 1990 – DIFC district



# Dubai in 2012 – DIFC district





# Islamic Finance Changes

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- Purpose
  - To give the current DFSA requirements relating to Islamic Finance a more cohesive and hence a more visible and acceptable structure
- A more comprehensive Islamic Finance Rules (ISR) module to replace the current Islamic Financial Business module (*due 1<sup>st</sup> March 2010*)
- Web-based virtual handbook similar to the tailored handbook provided by the UK FSA (*due May 2010*)



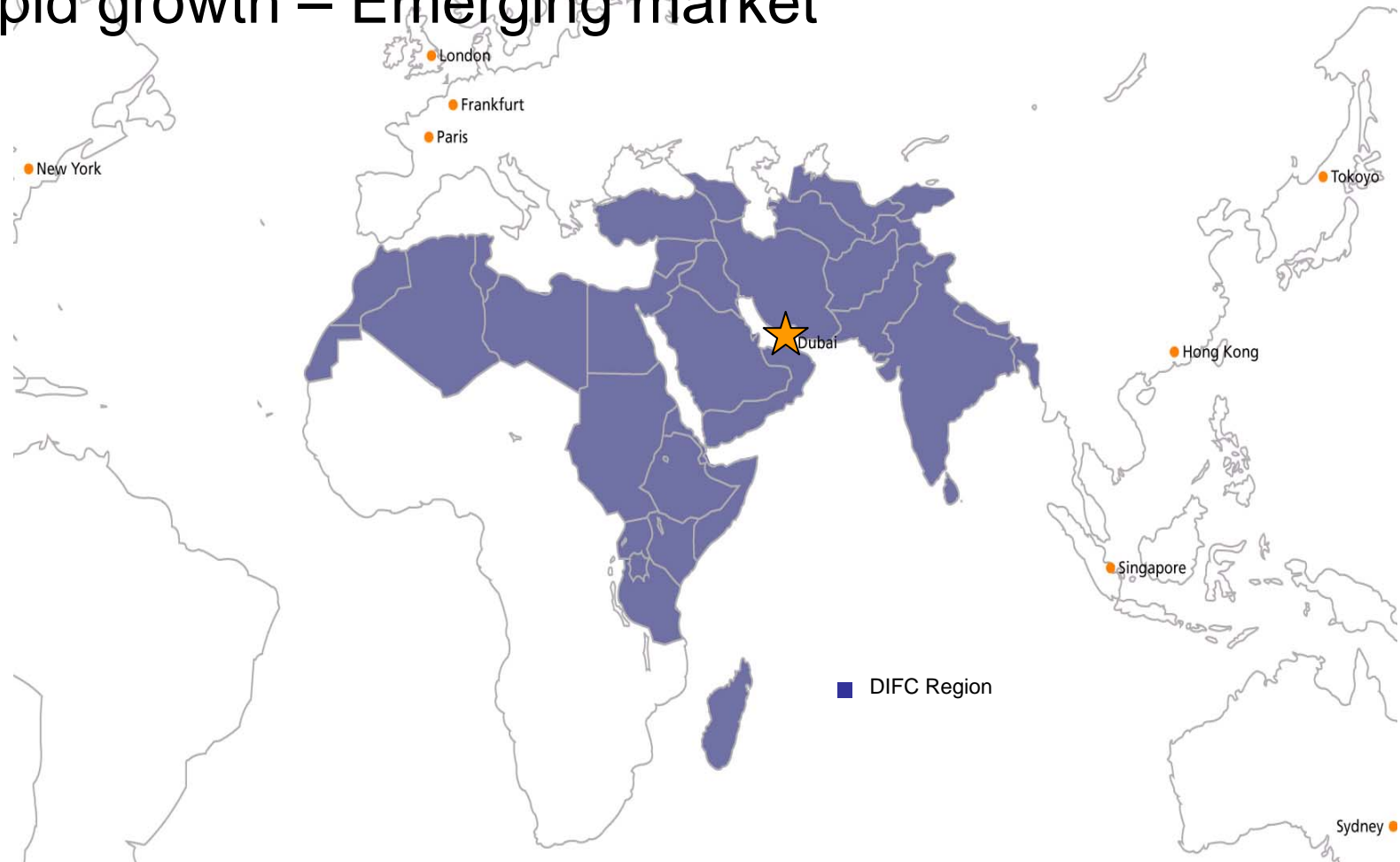
## DFSA and Islamic Finance

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- Practical, proportionate
- Wholly Islamic firms and Islamic Windows
- Shari'a Systems Based approach
  - Most flexible approach
- AAOFI Standards
- No central Shari'a Supervisory Board (SSB)
  - SSB duty on Firms (SYSC)
- Shari'a Governance – active role on IFSB Working Party

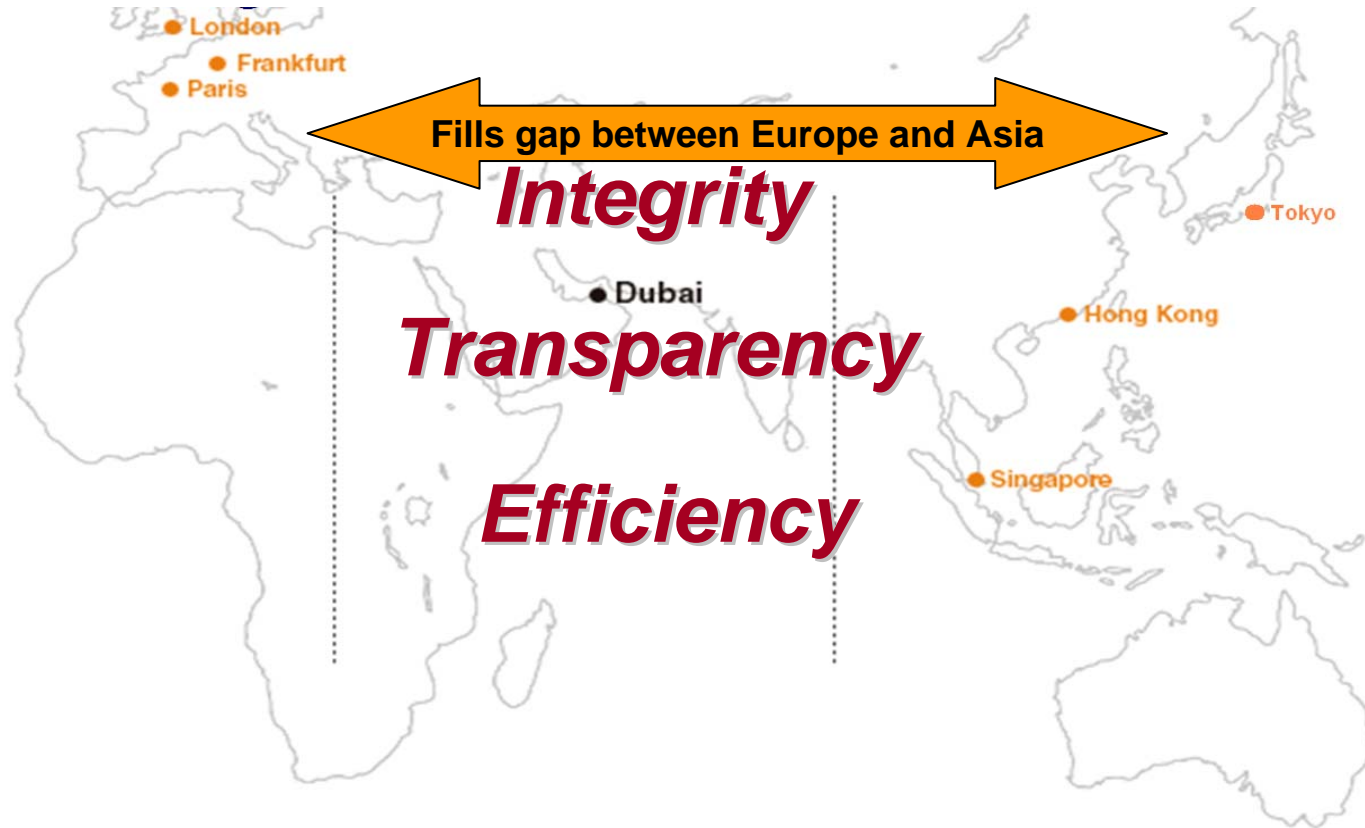
# Competing for International Investment - The DIFC Region

- Rapid growth – Emerging market





# Dubai International Financial Centre (DIFC)





# Liaison with Industry Bodies

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- AAOFI
  - Place on Board
  - DFSA has adopted key AAOFI standards
- IFSB
  - Long track record of support for Working Parties
  - Ongoing help with new Working Parties
- Takaful, Conduct of Business, Shari'a Governance, Liquidity Management
  - Hosting IFSB Takaful Summit & Technical Committee in DIFC (Feb)



# Why DFSA undertook a Funds Review

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- Desire to help boost the funds industry
  - DFSA already had good insight into challenges via Supervisory feedback
  - Engineered platform for regulator to better engage the regulated
- To maximise opportunities in the DIFC
  - financial market crisis
  - global appetite for regulatory change



# Overview of the Panel's Key Recommendations

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## 10 Issues & Key Recommendations to:

- Make the Funds regime the “right fit” for the DIFC Funds industry
- Better promote the DIFC Funds regime (by DFSA and DIFCA)
- Promote the DIFC and the DIFC Funds regime by focusing on two highly visible and viable angles



## Making the Regime the “Right Fit”

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- Removal of the current prohibitions that prevent DIFC Operators of Funds managing funds located outside the DIFC – Issue 1
- Removal of the current restrictive approach to distribution of Foreign Funds – Issue 2
- Lessening the stringency of the current Independent Oversight and Shari’a supervision requirements – Issues 6 and 7
- Removing the cost burden – regulatory and operational, e.g. licence costs – Issue 3



# Better Promotion of the DIFC Funds Regime

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- DFSA, with DIFCA, should better promote:
  - excellent infrastructure in Dubai
  - excellent regulatory regime (with the change suggested)
  - tax benefits
  - beneficial location
- Educate the industry, take a stance like well recognised smaller jurisdictions
- Consider providing incentives – infrastructure/seed capital (Issues 9 and 10)



# Visible and Viable Angles

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- Establish an Exempt Funds Regime:
  - fast track process
  - open only to high-net-worth investors
  - initial subscription – USD50,000 or more (Issue 5)
- Promote an Islamic hub in the DIFC – Adopt a less prescriptive yet appropriate Shari’a governance standards (Issue 7)



# Overall Message of the Panel to the DFSA

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- Panel is of the strong view:
  - the DIFC Funds regime is essentially sound
  - fine-tuning, more than an overhaul, is required
  - with the improvements suggested, and the right approach to implementing them,

the DIFC Funds regime will flourish

- DFSA must work with the industry to make progress



# Communication Strategy

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- DFSA messages
  - Panel Recommendations are not yet DFSA Rules
  - We are developing DFSA proposals relating to those recommendations Legislative Committee meetings (16<sup>th</sup> Feb and 31<sup>st</sup> March)
  - We will be taking into account public comments when developing our proposals
  - We expect to implement changes resulting from this process as soon as possible – c. July



**Thank You**



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