



## Chapter 2 – Licensed Bodies



This chapter draws on the Securities and Commodities Authority (the SCA or the Authority) **Decision No. 13 of 2021** titled '**Regulations Manual of the Financial Activities and Status Regularisation Mechanisms**'.

This ruling establishes a set of standards for companies seeking licensure. These entities must obtain authorization from the Authority to engage in one or more of the financial activities outlined at the end of Chapter 1.



## Legal Status, Place of Business, and Close Ties

- Disclosure of a licensed body's legal status allows parties to raise their concerns if they encounter any misconduct from the firm.
- In emergencies such as a fire or electricity interruption, Article 9 states that the firm is **not required** to follow the regular disclosure of legal status.
- Licensed firm's headquarters must be a **physical office within the geographic boundaries** of the State.
- SCA may demand to terminate or amend any close ties should they see fit.



# General Provisions

## Inspections and Investigations

- Licensed firms must reply to enquiries or document requests from the Authority in a timely manner
- Documents must be submitted in **Arabic**.

## Sanctions Available to the Authority

- In case a firm violates its provisions, SCA may impose a financial fine of **AED 100,000** and suspend financial activity for **up to 1 year**.

## Licensed Financial Activities and Categories

- See Chapter 1 for full breakdown.

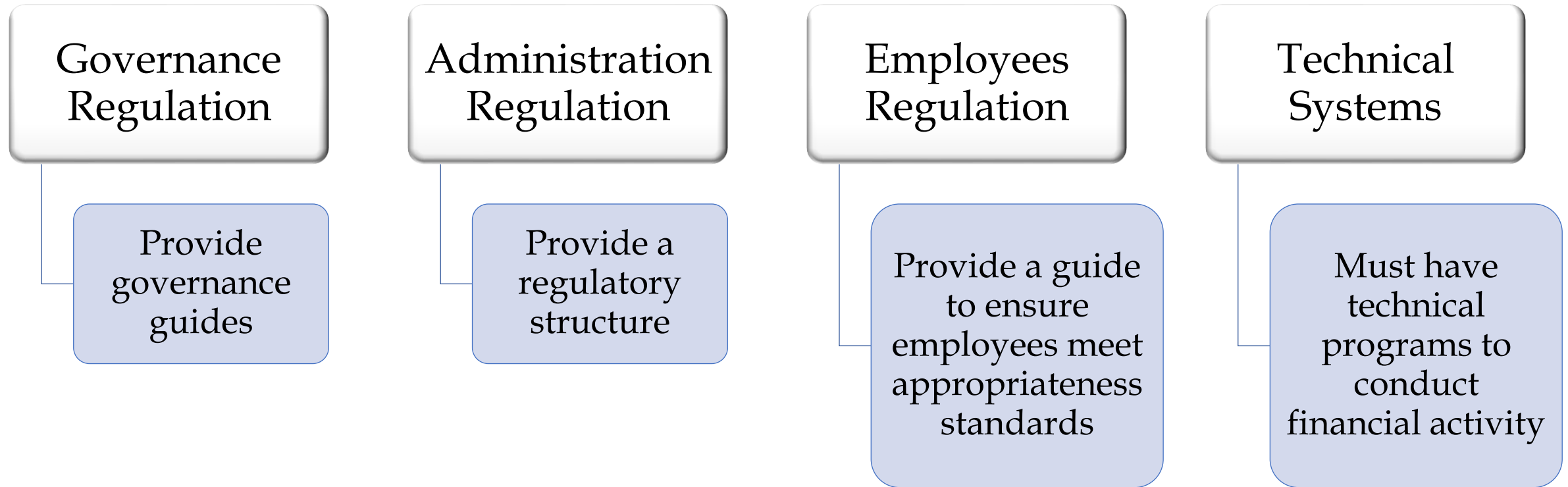


## Initial Approval Conditions

- Financial Eligibility
- Experience and Efficiency
- Honesty and Integrity
- Compliance
- Professional Record
- Feasibility Study and Work Plan
- Availability of Sufficient Resources
- Appropriateness of the company, the members of the board of directors and the senior management



# Further Licence Applicant Requirements



# Governance Regulation

A suitable number of board members should have **the knowledge, skill, and various experiences** to perform their tasks effectively.

Duties and responsibilities of board members should be clearly outlined, specifying the **governance principles guiding their actions**, and considering the nature and volume of their tasks.

Showcase commercial targets and the strategies for achieving such targets along with the **appropriate supervision measures** in place.

Include **a governance framework** that is suitable for the financial activity's nature and volume, ensuring sound management and stakeholder protection.



# Administration Regulation

**Administrative hierarchy** among the members of the senior management board and the main and approved jobs.

How tasks and approved jobs have been separated to **avoid conflicts of interest**.

Specifying senior management's responsibility such as **supervising the license applicant's daily operations** and ensure they are in line with approved commercial targets and strategies.

Specifying the senior officer who represents the senior management and bears the responsibility for mistakes in the following:

1. Distribution of tasks and responsibilities among employees.
2. Supervising works and tasks.
3. Observing the work of the employees and workers.

Regulatory Structure  
must include:







## Employee Rules and Regulations

- How to ensure the employee rules and regulations are **consistently updated**.
- How to ensure the **employees' data** will be continuously updated and certified.
- Maintaining the employees' data for **10 years from the date of the last update**.



## Behavioral Regulations

These include a code of ethics that prohibits the following:

1. Financial crime under the applicable legislations.
2. Wrong practices and violations of the applicable legislations
3. Practices that negatively affect the reputation of the Authority or any of the capital market institutions.



The licence applicant must have the technical systems required to support its financial activities. It should showcase the process to ensure continuous updates as well as the information safety and protection systems.

Additionally, it should provide of a guide that includes:

Mechanism of managing cyber risks.

Procedures to immediately notify the Authority and the entities concerned in case of a breach.



# Other Requirements For Licence Applicants



Risk Management



Compliance



Internal Audit



Information Confidentiality



Reporting Breaches



1

Risk Management guide must include:

1. Policies for managing risks encountered by the firm or its clients.
2. Defining potential risks and the method of dealing with them. Specifically, the controlling and reporting process **should enable the continuing practice** of the firm's financial activity.



2

**Compliance** regulation guide must include:

1. Procedures that enable the compliance officer to perform their tasks and work independently in addition to the provision of a suitable number of qualified employees under their supervision.
2. Procedures that ensure that the compliance officer shall have access to all records without restrictions.
3. Procedures of **immediate reporting on compliance violations and how to address them.**



3

Internal Audit guide must include:

1. Procedures that allow the internal auditor to act independently without any interference.
2. Procedures that ensure the internal auditor has access to the relevant records and information.
3. Process of immediately informing the financial auditor in **any event that may affect the financial position of the firm.**
4. Documentation of the structure, responsibilities and procedures of the internal auditor position.



4

**Information Confidentiality** guide must outline the circumstances under which information may be disclosed:

1. Required under applicable legislation in the State.
2. Client has consented.
3. **Reasonably necessary** to perform a specific financial service for the client itself.
4. Information is no longer confidential.
5. Disclosure is made upon request of judicial or supervisory entities in the State.



5

Report Breaches guide should focus on the concept of Whistleblowing.

1. Whistleblowing is when employees report significant violations observed while carrying out their job duties to senior management and the Authority.
2. Policies should protect whistleblowers by **maintaining their confidentiality** during investigations to prevent unfair treatment.
3. The Authority must be informed of any violations of legislation and other breaches.





# Complaints Handling

Record complaints immediately and provide complainants with contact details, resolution procedures, and mechanisms for storing all related information.

Periodically updating the complainant of the procedures taken to handle the complaint.

Notifying the complainant when the decision is made.

Other settlement mechanisms in case the complainant was not satisfied.

Providing a copy of the complaints handling procedures for free to any client upon request.

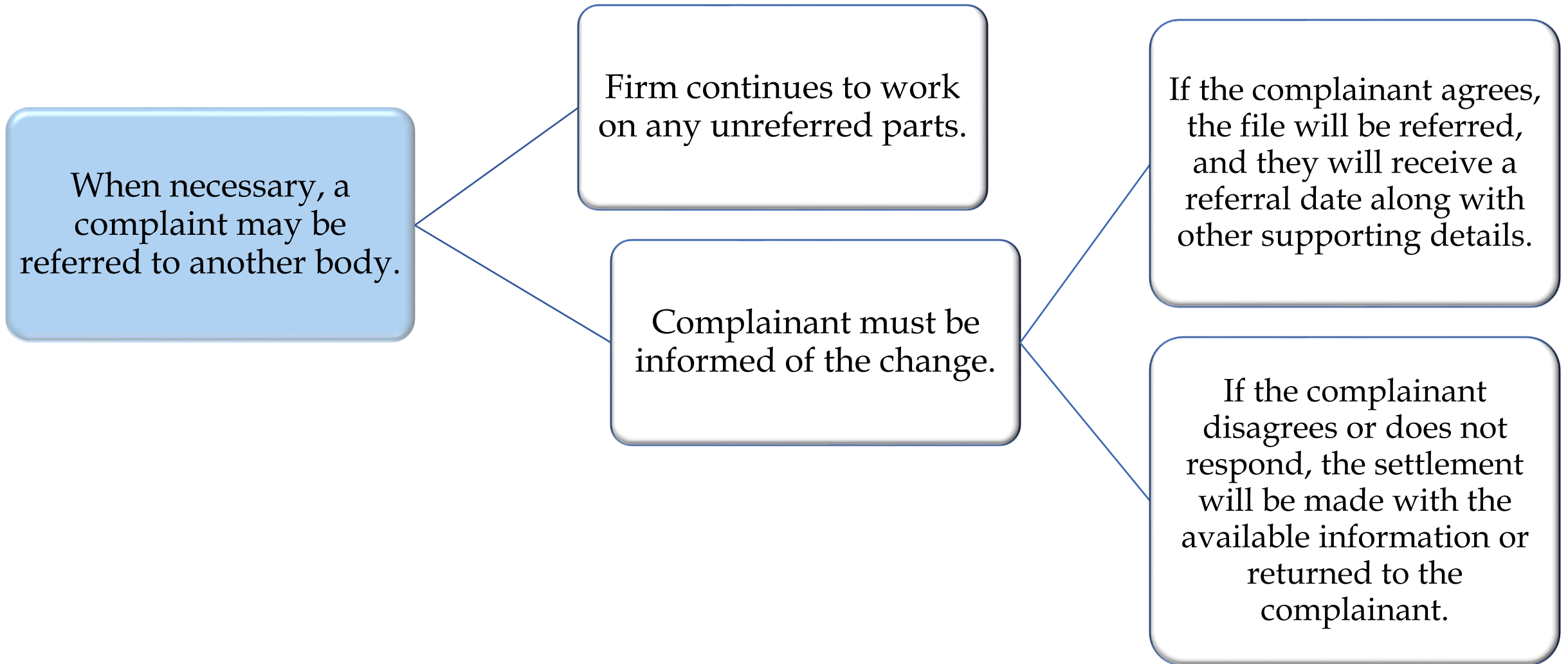
Employee should not participate in managing financial services **related to the complaint.**

Employee should have the power to **settle the complaint** and **communicate with the decision maker.**

Complaint Handling  
Policies must include:



# Complaints Handling



Outsourcing occurs when a firm assigns **another professional entity** to carry out certain tasks for them.



# Outsourcing and Cloud Computing

General  
outsourcing  
provisions:

Ensure due diligence when selecting the outsourced party.

Procedure to **supervise the outsourced tasks** and how to handle any breach in applicable legislations.

Plans of emergency and management of outsourcing risks as per the Emergency Crisis and Disasters Management Authority.

Procedures ensuring that the outsourcing arrangement does not hinder the obligations towards the client.

Outsourced party must honor the confidentiality of data and information.

Firm must not outsource all its **essential tasks** to the other party.



# Outsourcing and Cloud Computing

## Outsourcing using Cloud Computing

Confirmation that the applicant understands the **risks** from cloud computing.

Servers for the cloud computing of the outsourced party and other resources must be **inside the State**.

Outsourced party **must not review** the information and maintain confidentiality.

Outsourced party must provide an **annual audit report** from an external auditor on data and information security.

Outsourced party must be able to preserve the data (**'zero data loss'**) and protect them from any violation for **ten years**.

Outsourced party must **meet any additional requirements** specified by the capital market institutions.

Provide an **exit strategy plan** in case of contract termination to ensure maintenance and valid transfer of data.



# Outsourcing and Cloud Computing

Additional provisions when outsourcing to a party that is **outside the State**:



Firms cannot outsource any approved jobs **unless explicitly allowed** by the State and their regulations do not prevent the outsourced party from meeting its obligations.



Firms must inform the Authority and the capital market institutions if the supervisory authority of the outsourced party requested the data to be reviewed.



# Record Keeping Requirements

License applicants need procedures to maintain all records related to the licensed entity. Additionally, the licensed body must be able to recover any of those records or data from the archive within a period of **three business days**.

The procedures must include:

The powers to review the records

How the records are being protected for a period of **not less than ten years**.



Which of the following licencing requirement focuses on Whistleblowing?

- A. Information Confidentiality.
- B. Compliance.
- C. Report Breaches.
- D. Internal Audit.

EXAM FOCUS

