ABU DHABI GLOBAL MARKET
سوق أبوظبي العالمي

FINANCIAL SERVICES REGULATORY AUTHORITY
سلطة تنظيم الخدمات المالية

*A Financial Services Regulatory Authority guide*

# Our approach to Supervision

**What firms can expect from us**

As a dynamic and fast growing international financial centre, we are determined to promote the soundness of financial institutions through a proportionate, risk-based approach to supervision, whilst fostering innovative approaches to market developments.

Our overriding goal is to ensure that regulated firms ("firms") and market participants operate in a safe and sustainable way in accordance with our standards, in order to maintain the confidence and integrity of the financial system in ADGM, and provide a fair, efficient and transparent market with appropriate investor and customer protections.

We apply a risk-based approach that allows us to tailor the intensity of our supervision of firms according to the sector they operate in, their size and complexity and therefore the potential risks they may pose to our objectives. Our regulatory framework is underpinned by globally-accepted standards developed by international regulatory bodies such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors and the Financial Action Task Force.

*Our risk-based approach*

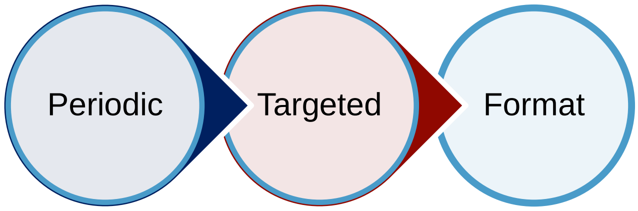
Central to achieving our goal is ensuring that firms that operate in ADGM are financially sound with appropriate governance and internal systems and controls, with the prevention of financial crime being a critical consideration, and that they treat their customers and market counterparties fairly. Our supervisory approach is based on the following elements.

- *Risk assessment*
    - Our supervisory review of a firm considers a wide range of factors that might give rise to any risk crystallising and resulting in an adverse impact on the firm or ADGM or both and gives rise to an "impact / risk rating" that determines the frequency and intensity of supervisory interaction/scrutiny.
    - The review takes into account the business model, size and complexity of the firm to determine the potential impact as a result of its distress or failure might have on the objectives of the FSRA, focusing on the following areas:.

| Business Risks | Financial Crime Risk | Governance, Systems and Controls | Financial Soundness |
|---|---|---|---|
| The risks arising from the business model and strategy of the firm, the environment in which it operates, the approach to its conduct of business (including both prudential and conduct risks arising from its activities). | The inherent risks arising from:<br>– the type(s) of products/services, customers, where the business is undertaken and mode of delivery; and<br>– mitigating through controls and oversight in place. | The appropriateness and effectiveness of:<br>– the governance arrangements including the fitness and probity of the Board/Senior management; and<br>– the control framework, including compliance, internal audit, risk management (including risk appetite), and other control structures. | – Quality and adequacy of capital and liquidity (where applicable)<br>– Effectiveness of the identification and management of risks (e.g. credit risk, market risk, operational risk, insurance risk).<br>– Quality of the internal risk assessments* |

* *covering the Individual Risk Assessment Process (IRAP) and/or the Individual Capital Adequacy Assessment Process (ICAAP) as appropriate*

- *Supervisory approach*




- *Periodic -* following authorisation firms will be assigned an impact / risk rating that will be periodically reviewed and updated if appropriate. The impact / risk rating will determine the intensity of the supervisory approach. The material typically covered during such periodic assessments includes the following examples.

  – Detailed review of business model and strategy
  – Capital and liquidity assessments
  – Review of periodic regulatory reports, e.g. financial/capital data and ratios
  – Review of specific annual regulatory submissions, e.g. AML return, capital reports, annual financial statements
  – Periodic meetings with senior management covering performance against the business plan, governance and controls, financial condition, risk management etc.

- *Targeted -* in addition to periodic assessments we may undertake targeted reviews to discuss specific matters covering, amongst other things, the following aspects.

  – Meetings of the Board of Directors and senior management
  – Third party specialists reviews and reports
  – Stress testing
  – Specialised and/or more frequent on-site inspection visits
  – Requesting specific action, information or reports from firms
  – Thematic reviews

- *Format –* supervisory assessments, both periodic and targeted, may utilise one or more forms of engagement with the firm, whether that is through on-site inspections, periodic meetings, electronic exchanges of information, regulatory reporting etc.

- *Supervisory actions and risk mitigation*

  - We may inform a firm of steps it needs to take in relation to a specific issue that gives rise to excessive risks that need to be eliminated or mitigated to bring them back to a tolerable level. These usually take the form of a Risk Mitigation Plan (RMP). We then expect the firm to take appropriate actions to address both the specific issue and its root cause, and to be able to demonstrate that to us.

**Our expectations of firms**


- *Responsibilities* - taking due account of the nature, structure and complexity of its business, we look to the firm's Governing Body to set the objectives and strategy of the business, and provide effective oversight of their delivery and of the management of the firm.

  We look to the senior management of a firm to ensure and be able to demonstrate compliance with binding regulatory standards. These include, amongst other things, financial soundness, the provision of adequate resources, the prevention of financial crime, fair dealing with customers and market counterparties and for senior management to take appropriate and timely action where shortcomings have been identified. The senior management of a firm is also required to keep us informed of significant events, or anything of which we would reasonably expect to be notified, to allow us to have up-to-date knowledge of the strategic plans, business activities and risk management of the firm.

- *Risk Management* - we believe that firms have the primary responsibility for the identification and management of those risks that they incur during the course of undertaking their business activities. This includes an awareness and analysis of how the relevant regulations and rules affect their business activities and ensuring that there is a strong risk and compliance culture embedded throughout the firm. Risk management is usually reflected in a firm's ICAAP or IRAP assessments which are kept up to date by the firm.

- *Engagement and Communication* - we expect an open, transparent and co-operative relationship with firms and that they are proactive in their contact with us regarding potential regulatory issues they have identified. All notifications or requests should be timely and accurate and have gone through the appropriate internal governance process within the firm, being escalated internally as appropriate, with the following examples:

  - Changes in Control;
  - Changes in Regulated Activities, i.e. giving up an existing permission or an application for a new one;
  - Changes to the firm's key personnel (e.g. Senior Executive Office, Compliance Officer);
  - Breach of relevant capital or liquidity requirements (where applicable);
  - Significant fraud event/customer loss events/complaints or litigation;
  - Significant data breaches, tax related obligations (such as those imposed through the FATCA, CRS and BEPS regimes) or loss events;
  - Significant changes in business strategy, products and services, distribution channels or target markets.