



Annual **Supervisory
Review Report** for 2023
and **Supervisory
Priorities & Expectations**
for 2024/2025



1.0 Introduction

This document provides a brief overview of the supervisory work carried out by the FSRA during 2023 and more importantly, sets out the FSRA's Supervision priority focus areas for 2025/2024 regarding the supervision of Authorised Persons placed under its supervisory remit.

By outlining and communicating the supervisory priorities for 2025/,2024, the FSRA aims to draw attention to specific areas of focus that the regulator has identified during its 2023 supervisory work and lay out its supervisory expectations for 2025/2024. This document is also intended to encourage Authorised Persons to assess more closely their practices against the relevant regulatory requirements, particularly in the areas mentioned in this document.

2.0 FSRA Supervision Approach

The FSRA Supervision adopts a Risk-Based Approach, where:

- a. Supervised entities deemed as potentially having the greatest financial, reputational and consumer impact, get a higher level of supervisory attention through dedicated supervisor(s). The dedicated supervisors aim to proactively identify risks emanating from the evaluation of the business model of the entity against relevant regulatory requirements, which will inform a structured supervisory interaction plan guided by the principle of proportionality and with the objective of addressing the identified risks.
- b. Supervised entities deemed as potentially having a lower degree of overall risk profile, including financial, reputational and consumer impact, are supervised by a dedicated team of supervisors rather than allocated a dedicated supervisor to each firm. This team will similarly develop an engagement plan across the portfolio of firms and manage the portfolio on an event-driven basis supplemented by proactive assessments of individual firms within this portfolio of firms, as deemed necessary.
- c. Supervision also utilises thematic assessments across the entire supervised population as a key means to ensure an appropriate understanding of cross-portfolio risks in areas such as financial crime, conduct-related issues and operational resiliency.
- d. Firms may also be subject to enhanced supervision based on identified crystallised risks and /or potential impact of those firms on the objectives of the FSRA.

The FSRA Supervision assessment follows a holistic review of prudential, conduct, financial crime prevention, operational resiliency and governance of supervised firms. Supervision also seeks to overlay firm-specific assessments with cross-sectoral analysis where possible. Supervision utilises various engagement tools and adopts a mix of on-site and offsite tools as deemed appropriate.

3.0 2023 Supervisory Review

2023 – Firms Falling Under Supervision

The population of FSRA-regulated firms continues to grow significantly year on year. The trend in growth has been across the board with asset management continuing to represent the largest segment. We have continued to observe increasing activity in the virtual asset space including more innovative business models.

2023 Supervisory Outcomes

For 2023 an enhanced supervisory engagement strategy was adopted moving towards a more comprehensive engagement approach including:

- Onsite inspections of dedicated firms
- Thematic reviews for cross-sectoral assessments
- Business model and strategy updates to cover a broader range of firms focusing on business model analysis and progress against plan.
- Close and continuous supervision of the highest-rated firms.

Arising from our supervisory activities in 2023, the FSRA has observed several areas where additional resources have been focused and/or there has been a notable increase in regulatory concerns. At a high level these issues, together with other factors, will also guide FSRA Supervision priorities for 2025/2024, as outlined below. The areas which received enhanced focus or have grown as areas requiring additional supervisory focus include:



1. Financial Crime

Financial Crime has been a key area of focus in 2023 with enhanced supervisory focus including a broad thematic review being conducted. All firms that have been subject to inspection would have to some degree had a review of the robustness of their financial crime framework. Some of the key areas requiring attention on an ongoing basis include:

- a. Oversight and governance of Financial Crime risk at a board level need to be enhanced to demonstrate a thorough and robust framework with support from the highest levels within the firm.
- b. Business risk assessment practices require enhancement to ensure a holistic view of the entire firm's business activities together with the jurisdictions within which the firm does business, and where new business activities or lines have been introduced.
- c. Ongoing enhancements required for customer risk assessments and due diligence, particularly in relation to source of funds and wealth.
- d. Significant reliance on outsourced service providers with little or no oversight from the Authorised Person, this includes the specific area of sanctions screening.



2. Governance

During 2023 it was observed that as many firms begin to grow and develop their business activities the corporate governance structures are not evolving accordingly. Of course, the nature of the corporate governance model depends on the nature scale and complexity of the Firm, but nevertheless, Firms should be cognisant of the following areas:

- a. Composition of Boards of Directors not appropriate given the nature, scale, and complexity of the firm's business.
- b. Lack of independence and objectivity when governing the firms' business.
- c. Effectiveness and appropriate exercise of Board responsibilities over the business operations and control functions.
- d. Ensuring the breadth and depth of information being provided to Boards is sufficient to inform board members of the associated business activities and related risks.



3. Financial Resilience

During 2023, most firms navigated the challenging global economic landscape well. The FSRA has however observed the need for enhanced focus on prudential matters. Some observations included:

- a. Financial projections and financial resources need to allow for challenges, especially in the initial stages of operations.
- b. Lack of robust and realistic forward-looking financial projections.
- c. Lack of focus and governance in relation to firms' IRAP and ICAAP assessments in understanding the financial risks of a firm's business models.
- d. Delays in capital raising or shareholder support in some cases.



4. Outsourcing

Across the population, there is a certain degree of outsourced activities which in many cases is commensurate with the nature, scale, complexity and maturity of firms' businesses. However certain trends have been observed in the following areas:

- a. Increased number of key resources outsourced externally or to other parts of the group where sufficient time and focus on the firm may not be evident.
- b. Overreliance on outsourced activities and resources where firms' activities have grown significantly. Inadequate governance and oversight over outsourced activities

Assessment of local presence within ADGM will be an area of focus for FSRA.

4.0 2024/2025 Supervision Priorities and Expectations

Supervision priorities for 2025/2024 have been identified following careful consideration of the FSRA Strategic Objectives, market environment, international regulatory developments, as well as supervisory data analysis and supervisory experience from engagement with the regulated firms during but not exclusively during 2023.

The priorities provide an insight into the main (but not exclusive) supervisory areas that FSRA Supervision will focus on during its supervisory engagement with firms during the course of 2025/2024 and beyond. It is important to note that the supervisory priorities outlined in this document are merely priority areas that Supervision will focus on, but which form part of a wider range of work which Supervision will be carrying out during its regulatory responsibilities in 2025/2024. The priorities set out in this document may change during the year in response to events and on a case-by-case basis in line with the FSRA's supervisory risk-based approach.

The core areas of supervisory focus for 2025/2024 are the following:



1. Financial Crime

Financial Crime is and will remain, a key focus for our supervisory reviews and engagement activities. This is a critical element for the protection of the reputation of the ADGM together with the alignment of the UAE national agenda. Our supervisory activities will include enhanced reporting of AML risks, increased focus as part of inspections and further thematic reviews.

Firms are expected to have in place robust Financial Crime systems and controls as part of a well-established MLRO function. Firms are also expected to be fully aware of both local and international developments in the area of Financial Crime and adapt their business and operating model accordingly.



2. Conduct of Business

Consumer protection is a critical aspect of the protection of customers and the confidence of investors in the ADGM. The core element is the protection of consumers and ensuring the provision of fair and transparent services to customers, with an enhanced focus on Retail customers.

The protection of clients' assets and clients' monies will remain a key priority area in this regard (as was covered in a 2023 thematic review). Supervision will seek to identify any shortcomings that regulated entities may have in terms of appropriate segregation of clients' accounts, periodic reconciliation of client assets, correct designation of bank accounts /wallets together with the appropriate classification of customers. In addition to the above, other areas of focus will include, inter alia:

- a. Client classification
- b. Suitability
- c. Sales practices
- d. Complaint handling



3. Governance

Strong governance is considered the foundation of strong compliance by an Authorised Person. Governance practices for the regulated community continue to evolve and we will be continuing to focus on areas for 2024/2025.

While the FSRA strives to be proportionate in its approach, strong governance is a critical requirement irrespective of the size and nature of a business. The FSRA expects to see, amongst other things:

- a. Board compositions in line with the nature, scale and complexity of the Authorised Person, including where appropriate, Non-Executive Directors and Independent Non-Executive Directors.
- b. Board of Directors who are actively engaged in providing effective oversight.
- c. Evidence of appropriate independence and challenge with regard to Board decisions and operational oversight.
- d. Appropriate management of conflicts of interest.
- e. Competent individuals assuming critical functions within an entity.
- f. Proper training support for the development of staff.
- g. A proper balance of controls within the operations of an entity applied in practice.
- h. Evidence that the role of CO / MLRO is functionally part of the senior management of the Authorised Persons



4. Financial Soundness

During 2025/2024, the FSRA will also continue to focus on the prudential and financial resiliency of firms.

Some 'start-up' firms may face financial challenges at the outset, running on slender financial resources especially where initial business projections may not have materialised as expected. As a result, while the materiality may not be significant, Supervision is very mindful of such situations where it is critical that no such financial issues jeopardise the interests of clients.

Authorised Persons are subject to regulatory requirements to ensure smooth financial operations of their business. This is an area that Supervision will monitor and review through regular reporting as well as through other engagements with Authorised Persons. In this regard, the FSRA expects:

- a. Timely and complete submissions of financial regulatory reporting as applicable to the Authorised Person.
- b. Shareholder financial support as and when required to ensure compliance by an Authorised Person with its financial regulatory requirements on an ongoing basis while continuing to pursue its operations.
- c. Authorised Persons to enhance their financial projections, including via the IRAP and ICAAP assessments, to ensure a forward-looking understanding of their financial position before any breaches of financial resource requirements.



5. Outsourcing

Outsourcing allows efficiencies and access to specialist knowledge for firms that are in their infancy, or whose business model does not warrant a more complex organisational structure. However, in an outsourced environment, the Authorised Person remains responsible for the effective performance of the outsourced function. In this regard, the FSRA expects that there are:

- a. Properly executed outsourcing agreements between the Authorised Person and the outsourced entity.
- b. Assessment by Authorised Persons of the entities to which they will be outsourcing in order to ensure that there is a fit with the needs of the Authorised Persons before entering into the outsourcing agreements.
- c. Regular updates to be provided by the outsourced party to the Authorised Person.
- d. Regular oversight of the activities conducted by the outsourced parties.



6. ICT Risk & Cybersecurity (“ICTRC”)

SICTRC is cross-sectoral and has an impact on all supervised entities in various ways and to differing degrees. The focus areas in reviewing the adequacy of IT controls will be on IT governance and IT risk management (including security awareness training); third-party management (including outsourcing); endpoint and network security supporting remote work arrangements; IT resilience (including business continuity); and IT security testing programmes (including IT audit). The assessment of such would typically be carried out by FSRA Fintech Division in close liaison with FSRA Supervision, through a variety of supervisory tools using a risk-based approach, including, but not limited to ICT Risk Questionnaires, Thematic Reviews, Supervisory Meetings and Supervisory Inspections.

Our General Expectations of Authorised Persons

Responsibilities – Supervision looks to the Governing Body of Authorised Persons to set the objectives and strategy of the business, and provide effective oversight of their delivery and of the management of the Authorised Person. This includes ensuring and being able to demonstrate compliance with binding regulatory standards.

The senior management of an Authorised Person is also required to keep us informed of significant events, or anything of which we would reasonably expect to be notified, to allow Supervision to have up-to-date knowledge of the strategic plans, business activities and risk management of the firm.

Risk Management – Authorised Persons have the primary responsibility for the identification and management of their risks. 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.

Engagement and Communication – Supervision expects an open, transparent and co-operative relationship with Authorised Persons and that they are proactive in their contact with Supervision 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 Authorised Person, including where relevant, an adequate and considered analysis by the Authorised Person of the issue and proposals to address.



On-going Priority Enhancements to Supervisory Approach and Operational Efficiency

In parallel with ongoing supervisory priorities, Supervision will continue to enhance its supervisory approach and overall processes, together with enhancing its engagement with regulated firms on an on-going basis. These initiatives include:

Supervisory Approach

1. Funds and Fund Management is the largest growing regulated sector in ADGM. A review of the supervisory approach in this area will be a 2025/2024 objective to ensure that the regulatory framework and supervisory approach continue to be proportionate, but also reflect developments in these sectors as they evolve in ADGM.
2. The supervisory approach for Virtual Assets will continue to reflect developments in this area and be continuously enhanced to ensure the adequate assessment of the risks as such businesses evolve in ADGM. With support from the FSRA Fintech Division, Supervisors are putting in place tools to monitor VA firms' risk profiles and ongoing activities.

Operational

3. Digitisation and Data management, as well as usage of Sup Tech in the Supervisory Approach followed by Supervision and the Fintech teams will continue to remain a priority for Supervision. These contribute towards the objectives of increasing the supervisory effectiveness and efficiency and ensuring a robust risk-based approach.
4. Automation of supervisory processes and reporting which will primarily be driven via the FSRA Connect project. Most if not all firms will already have had exposure to the FSRA Connect portal in 2023. Over the coming periods, there will be a number of further enhancements being released whereby Authorised Persons will continue to increase the use of FSRA Connect as their supervisory portal and information depository.
5. Increased data-driven supervision will include increased focus on data-driven risk analysis and a significant increase in the suite of data obtained from the regulated community over time. Authorised Persons will in future be required to provide far greater granularity of data sets in line with the nature scale and complexity of their business.

The regulated community has grown significantly in the past year and is expected to continue to do so. The FSRA adopts an engaging, proportionate and risk-based approach to the supervision of Authorised Persons, utilising technology where appropriate to do so. The FSRA Supervision will continue to adapt its supervisory approach to industry developments and adapt to the needs of supervising the growing ecosystem to meet its statutory objectives and help ensure the deliverance of the highest standards of regulation.

