

Appendix 1

In this appendix underlining indicates new text and striking through indicates deleted text.

A number of Rules included in the text are not being amended, but are included for reference.



The DFSA Rulebook

Prudential – Investment, Insurance
Intermediation and Banking Module

(PIB)

1 APPLICATION, INTERPRETATION AND CATEGORISATION

1.1 Application

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Branches

- 1.1.2** Unless otherwise directed by the DFSA, an Authorised Firm that is a Branch is required to comply with the Rules in chapters 2 to 11 as specifically provided in “Application Table A” which forms part of this Rule.

Guidance

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Domestic Firms

4. To assist Authorised Firms that are Domestic Firms there is a table “Application Table B” which sets out in general the application of the provisions in this module to different Categories of Authorised Firms. This table is for Guidance purposes only. The Rules in this module apply to Authorised Firms in accordance with this Chapter and as specified in Rules elsewhere in this module.
5.

APPLICATION TABLE A FOR AUTHORISED FIRMS THAT OPERATE AS A BRANCH IN THE DIFC

| PIB Chapters | Category 1 | Category 2 | Category 3A | Category 3B | Category 3C | Category 4 | Category 5 |
|---|---|---|---|--|--|--|---|
| Chapter 1: Application, Interpretation and Categorisation | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter |
| Chapter 2: General Requirements | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter |
| Chapter 3: Capital | Only Rule 3.2.4 | Only Rule 3.2.4 | Only Rule 3.2.4 | Only Rule 3.2.4 | Only Rule 3.2.4 | Only Rule 3.2.4 | Only Rule 3.2.4 |
| Chapter 4: Credit Risk | Only sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9 | Only sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9 | Only sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9 | | | | Only sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9 |
| Chapter 5: Market Risk | Only sections 5.1 and 5.2 | Only sections 5.1 and 5.2 | Only sections 5.1 and 5.2 | | | | Only sections 5.1 and 5.2 |
| Chapter 6: Operational Risk | Whole Chapter, except sections 6.11 and 6.12 | Whole Chapter, except sections 6.11 and 6.12 | Whole Chapter, except sections 6.11 and 6.12 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except sections 6.11 and 6.12 |
| Chapter 7: Interest Rate Risk In the Non-Trading Book | Whole Chapter | Whole Chapter | | | | | |
| Chapter 8: Group Risk | Only sections 8.1, 8.2 and 8.5 | Only sections 8.1, 8.2 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1, 8.2 and 8.5 |
| Chapter 9: Liquidity Risk | Whole Chapter, except Rule 9.2.2(3) | Only Rule 9.2.2 (3) | | | | | Whole Chapter, except Rule 9.2.2(3) |
| Chapter 10: Supervisory Review and Evaluation Processes | | | | | | | |
| Chapter 11: Disclosure Requirements | | | | | | | |

APPLICATION TABLE B FOR AUTHORISED FIRMS THAT OPERATE AS A DOMESTIC FIRM

| PIB Chapters | Category 1 | Category 2 | Category 3A | Category 3B | Category 3C | Category 4 | Category 5 |
|---|--|---|--|---|---|---|--|
| Chapter 1: Application, Interpretation and Categorisation | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter |
| Chapter 2: General Requirements | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter |
| Chapter 3:Capital | Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5 and 3.7 | Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.3 and 3.5 | Whole Chapter, except Rules 3.2.4 and 3.2.6, except sections 3.3, 3.5, <u>3.9, 3.9A, 3.9B, 3.9C</u> and 3.18 | Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, <u>3.9A, 3.9B, 3.9C</u> and 3.18. | Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, <u>3.9A, 3.9B, 3.9C</u> and 3.18. | Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, 3.9, <u>3.9A, 3.9B, 3.9C</u> and 3.18. | Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5 and 3.7 |
| Chapter 4:Credit Risk | Whole Chapter | Whole Chapter | Whole Chapter | | | | Whole Chapter |
| Chapter 5:Market Risk | Whole Chapter | Whole Chapter | Only sections 5.1, 5.2 and 5.6 | | | | Whole Chapter, except section 5.4 |
| Chapter 6:Operational Risk | Whole Chapter, except section 6.12 | Whole Chapter, except section 6.12 | Whole Chapter, except section 6.12 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except sections 6.10 and 6.11 | Whole Chapter, except section 6.12 |
| Chapter 7:Interest Rate Risk In the Non-Trading Book | Whole Chapter | Whole Chapter | | | | | |
| Chapter 8:Group Risk | Whole Chapter | Whole Chapter | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Only sections 8.1 and 8.5 | Whole Chapter |
| Chapter 9:Liquidity Risk | Whole Chapter, except Rule 9.2.2(3) | Only Rule 9.2.2 (3). | | | | | Whole Chapter, except Rule 9.2.2(3) |
| Chapter 10:Supervisory Review and Evaluation Processes | Whole Chapter | Whole Chapter | Whole Chapter | Whole Chapter, except sections 10.4 and 10.6 | Whole Chapter, except sections 10.4 and 10.6 | | Whole Chapter |

PRUDENTIAL – INVESTMENT, INSURANCE INTERMEDIATION AND BANKING (PIB)

| PIB Chapters | Category 1 | Category 2 | Category 3A | Category 3B | Category 3C | Category 4 | Category 5 |
|------------------------------------|-------------------|-------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| Chapter 11:Disclosure Requirements | Whole Chapter | Whole Chapter | | | | | Whole Chapter |

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1.2 Glossary for PIB

Guidance

Set out under Rule 1.2.1 are a number of mainly technical definitions used solely in PIB. Such definitions do not also appear in GLO unless they are used elsewhere in the Rulebook. GLO also contains definitions of abbreviations, terms and phrases used in PIB and those are also included in 1.2.1 for convenience purposes where such definitions are embedded in PIB specific definitions. Commonly used definitions such as “Authorised Firms”, “Domestic Firms”, and “Financial Services” appear only in GLO.

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of this module:

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| | |
| <u>Basel Committee</u> | <u>The Basel Committee on Banking Supervision.</u> |
| | |
| <u>Capital Buffer</u> | <u>In relation to an Authorised Firm, means the sum of the following (to the extent applicable to the firm):</u> <u>(a) Capital Conservation Buffer;</u> <u>(b) Countercyclical Capital Buffer; and</u> <u>(c) HLA Capital Buffer.</u> |
| <u>Capital Buffer Requirement</u> | <u>Means a requirement to maintain any one or more of the following:</u> <u>(a) a Capital Conservation Buffer;</u> <u>(b) a Countercyclical Capital Buffer; or</u> <u>(c) an HLA Capital Buffer.</u> |
| <u>Capital Conservation Buffer</u> | <u>The Capital Buffer that an Authorised Firm must maintain under section 3.9.</u> |

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| <u>Capital Conservation Buffer Requirement</u> | <u>The requirement to maintain a Capital Conservation Buffer under section 3.9.</u> |
| Capital Requirement | The amount of capital an Authorised Firm must hold, calculated in accordance with PIB sections 3.3, 3.4, 3.5, 3.9, 3.9A or 3.9B, as applicable |
| | |
| <u>Countercyclical Capital Buffer (CCyB)</u> | <u>The countercyclical capital buffer that an Authorised Firm must maintain under section 3.9A.</u> |
| <u>CCyB Authority</u> | (1) <u>For the State, means the Central Bank; and</u> (2) <u>For any other jurisdiction, means the authority in that jurisdiction responsible for setting CCyB Rates.</u> |
| <u>CCyB Rate</u> | <u>A rate expressed as a percentage of Risk Weighted Assets that applies under Rules 3.9A.7 to 3.9A.9.</u> |
| <u>CCyB Requirement</u> | <u>The requirement to maintain a Countercyclical Capital Buffer under section 3.9A.</u> |
| | |
| <u>Domestic Systemically Important Bank (D-SIB)</u> | <u>An Authorised Firm designated by the DFSA under section 1.4 as a domestic systemically important bank.</u> |
| | |
| <u>Global Systemically Important Bank (G-SIB)</u> | <u>An Authorised Firm designated by the DFSA under section 1.4 as a global systemically important bank.</u> |
| | |
| <u>HLA Capital Buffer</u> | <u>A higher loss absorbency capital buffer that a SIB must maintain under section 3.9B.</u> |
| <u>HLA Capital Buffer Requirement</u> | <u>The requirement to maintain a higher loss absorbency capital buffer under section 3.9B.</u> |
| <u>HLA Ratio</u> | <u>In relation to a SIB, means the ratio determined by the DFSA under Rule 3.9B.6 for that SIB.</u> |

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| <u>ICR (Individual Capital Requirement)</u> | Individual capital requirement |
| | |
| <u>Leverage Ratio Exposure Measure</u> | <u>The value of an Authorised Firm’s exposures calculated in accordance with Rule 3.18.3 to determine its Leverage Ratio.</u> |
| | |
| <u>Non-Financial Private Sector Credit Exposure</u> | <p><u>A Credit Risk Exposure to a party other than:</u></p> <p><u>(a) a sovereign;</u></p> <p><u>(b) a regional, provincial or municipal government;</u></p> <p><u>(c) a public sector entity;</u></p> <p><u>(d) a multilateral development bank; or</u></p> <p><u>(e) a bank.</u></p> |
| | |
| <u>Risk Capital Requirement</u> | <u>Has the meaning given in Rule 3.8.1A.</u> |
| <u>Risk Weighted Assets (RWA)</u> | <u>The Risk weighted assets of an Authorised Firm calculated in accordance with Rule 3.8.2.</u> |
| | |
| <u>Systemically Important Bank (SIB)</u> | <p><u>An Authorised Firm designated by the DFSA under section 1.4 to be either or both of the following:</u></p> <p><u>(a) a D-SIB; or</u></p> <p><u>(b) a G-SIB.</u></p> |
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1.4 Systemically Important Banks (SIBs)

Guidance

1. This section provides for the DFSA to be able to designate an Authorised Firm as a Systemically Important Bank (SIB). A SIB is a bank whose impact, if it were to fail, could cause significant disruption to the financial system and the broader economy. To address the additional risks that SIBs pose, SIBs are subject to specific regulatory and supervisory measures, including higher capital charges in the form of an additional buffer (an HLA Capital Buffer) and more intensive supervision.
2. The DFSA will base its approach to identifying SIBs, and the measures that it applies to SIBs, on the framework issued by the Basel Committee.
3. In accordance with the Basel Committee framework, this section provides for the DFSA to designate two types of SIBs: global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs). The main difference between the two types of SIBs, is that G-SIBs are capable of having a significant impact on the effective working and stability of the global financial system, while the potential impact of D-SIBs is on the local or regional financial system. The differences in the requirements that apply to each are explained later in this section.
4. In appropriate cases, the DFSA may designate an Authorised Firm as both a G-SIB and a D-SIB if its failure could have a significant impact on both the global and regional financial systems. If the DFSA designates a firm as both a G-SIB and a D-SIB, the HLA Capital Buffer that applies will be whichever is the higher of the amount calculated for it as a G-SIB and the amount calculated for it as a D-SIB (see Rule 3.9B.3). If a firm is a G-SIB, it does not automatically mean that it will be a D-SIB. For example, a firm may be systemically important globally, but it may not conduct significant business locally or regionally.

Global Systemically Important Banks (G-SIBs)

1.4.1 The DFSA will designate an Authorised Firm as a G-SIB if:

- (a) it is a Domestic Firm in Category 1 or 5;
- (b) it is a member of a Group that is included on the list of global systemically important banks published by the Financial Stability Board; and
- (c) the DFSA is the overall consolidated supervisor of that Group.

1.4.2 The DFSA may designate an Authorised Firm as a G-SIB if:

- (a) the conditions in paragraphs (a) and (b) of Rule 1.4.1 are met in relation to the Authorised Firm; and
- (b) the DFSA is not the overall consolidated supervisor of the Group but it considers that it is appropriate to treat the Authorised Firm as a G-SIB.

Guidance

1. The Financial Stability Board (FSB), in consultation with the Basel Committee, identifies and periodically publishes a list of global systemically important banks.

2. If the DFSA is the consolidated supervisor of a Group included on the FSB list of global systemically important banks, it will designate an Authorised Firm in the Group that is a bank as a G-SIB (see Rule 1.4.1).
3. If an Authorised Firm that is a bank is part of a Group included on the FSB list, but the DFSA is not the consolidated supervisor of that Group, the DFSA may designate that Authorised Firm as a G-SIB if it considers it is appropriate to do so in all the circumstances (see Rule 1.4.2). If the DFSA proposes to designate an Authorised Firm as a G-SIB where it is not the consolidated supervisor of the relevant Group, it will normally consult first with the consolidated supervisor to ensure that the supervisors are taking a co-ordinated approach.
4. A G-SIB, in addition to being subject to more intensive supervision, must maintain an extra capital buffer (the HLA Capital Buffer) under section 3.9B. At the consolidated Group level, a G-SIB also has to publish quantitative indicators relating to its systemic importance (see Rule 11.1.3 and App 11 Table 15) and carry out recovery and resolution planning.

Domestic Systemically Important Banks (D-SIBs)

1.4.3 The DFSA may designate an Authorised Firm as a D-SIB if:

- (a) it is a Domestic Firm or Branch in Category 1, 2 or 5; and
- (b) the DFSA considers that the risks associated with the Authorised Firm are such that, if it were to fail, it could have a significant impact on the effective working and stability of the banking or financial system locally or regionally.

Guidance

1. The DFSA will, in assessing if it should designate an Authorised Firm as a D-SIB, take into account the factors suggested by the Basel Committee in its framework for domestic systemically important banks. Those factors include the size, interconnectedness, substitutability and complexity of the firm. The DFSA will publish the general assessment methodology it applies in assessing if it should designate a firm as a D-SIB.
2. The DFSA may designate an Authorised Firm as a D-SIB whether it is a Domestic Firm or a Branch. However, the measures that apply to a D-SIB that is a Branch will be less extensive than those that apply to a D-SIB that is a Domestic Firm. For example, while both are subject to more intensive supervision, a D-SIB that is a Branch will not be subject to the HLA Capital Buffer Requirement. This is because most capital requirements in chapter 3 do not apply to a Branch as it is subject to capital requirements applied by its home state regulator.

Procedures for designating SIBs

- 1.4.4** (1) The DFSA may amend or cancel a designation made under this section.
- (2) The DFSA must publish a copy of any designation made under this section or any amendment or cancellation of that designation.
- (3) The procedures in Schedule 3 to the Regulatory Law apply to a DFSA decision to designate an Authorised Firm as a SIB or to amend the designation.
- (4) If the DFSA decides to designate an Authorised Firm as a SIB or to amend the designation, the Authorised Firm may refer the matter to the FMT for review.

- (5) Paragraphs (3) and (4) do not apply to a DFSA decision to designate a G-SIB under Rule 1.4.1 or to amend the designation.

Guidance

The Schedule 3 procedures and the right of review by the FMT do not apply to the designation of a G-SIB under Rule 1.4.1 (see Rule 1.4.4(5)). This is because the DFSA, under Rule 1.4.1, will designate a bank as a G-SIB if it is included on the list of global systemically important banks published by the Financial Stability Board.

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3 CAPITAL

Introduction

Guidance

1. This chapter deals with all aspects of prudential requirements relating to capital adequacy. The chapter aims to ensure that an Authorised Firm maintains adequate capital to support the risks associated with its activities and that it can absorb potential unexpected losses to its capital. It also includes provisions forming part of the framework for assessing the capital adequacy of an Authorised Firm.
2. Part 1 of this chapter deals with the application provisions. Part 2 outlines the fundamental capital adequacy obligations and systems and controls requirements to ensure compliance with this critical regulatory obligation. Part 3 includes all the Rules and associated guidance for the calculation of minimum Capital Requirement for different Categories of Authorised Firms. This part also specifies the requirements in respect of ~~the~~ Capital Conservation Buffers and associated obligations. It specifies three types of Capital Buffers: the Capital Conservation Buffer, the Countercyclical Capital Buffer and the HLA Capital Buffer. Part 4 of this chapter specifies detailed Rules on the calculation of Capital Resources of an Authorised Firm, including detailed Rules on the eligibility criteria for different components of Capital Resources which correspond to varying levels of quality.
3. Appendix 3 provides detailed guidance on various aspects of stress and scenario testing which are required to be considered by an Authorised Firm to effectively comply with the Rules in this chapter.

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PART 2 – Basic Requirements

3.2 Requirements

Application

3.2.1 In this section:

- (a) Rules 3.2.2 to 3.2.5 apply to an Authorised Firm in any Category;
- (b) Rule 3.2.6 applies only to an Authorised Firm in Category 3B, 3C or 4; and
- (c) Rule 3.2.7 applies only to an Authorised Firm in Category 1, 2, 3A or 5.

Maintaining Capital Resources

3.2.2 An Authorised Firm that is a Domestic Firm must:

- (a) have and maintain, at all times, Capital Resources of the kinds and amounts specified in, and calculated in accordance with, the Rules in PIB; and
- (b) ensure that it maintains capital and liquid assets in addition to the requirement in (a) which are adequate in relation to the nature, size and complexity of its business to ensure that there is no significant risk that liabilities cannot be met as they fall due.

Guidance

1. For the purposes of Rule 3.2.2, an Authorised Firm's Governing Body should assess whether the Capital Resources which are required by the DFSA, as set out in PIB, are adequate in relation to the Authorised Firm's specific business. Additional resources should be maintained by the Authorised Firm where its Governing Body has considered that the required Capital Resources do not adequately reflect the nature and risks of the Authorised Firm's business.
2. The liabilities referred to in Rule 3.2.2(b) include an Authorised Firm's contingent and prospective liabilities, such as liabilities arising from a change in business strategy or claims made against the Authorised Firm, but not liabilities that might arise from prospective transactions which the Authorised Firm could avoid, for example by ceasing its operations. Liabilities from prospective transactions refers to the potential liabilities which can be avoided by either adequate risk management, risk transfer or avoiding the transaction completely. This refers to any prospective transaction, for example, lending money to a borrower or entering into a contract for the provision of services by a service provider.
3. An Authorised Firm subject to the requirements in chapter 10 may be required to meet Individual Capital Requirements under those Rules.

- 3.2.3** An Authorised Firm must have, at all times, Capital Resources which exceed the amount of its Capital Requirement.

Guidance

The specific Capital Requirements for the various Categories of Authorised Firms are dealt with in sections 3.3, 3.4, ~~and 3.5, 3.9, 3.9A and 3.9B.~~

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Requirements as to composition of capital

- 3.2.7** (1) This Rule applies to an Authorised Firm in Category 1, 2, 3A or 5.
- (2) Subject to Rule 3.6.3 and (3), an Authorised Firm must at all times maintain the following components of capital:
- (a) where the Risk Capital Requirement forms part of the Capital Requirement of the firm under section 3.3 or 3.4:
- (i) CET1 Capital equating to at least ~~60%~~ 6.0% of the firm's Risk Weighted Assets ~~Risk Capital Requirement~~; and
- (ii) T1 Capital equating to at least ~~80%~~ 8.0% of the firm's Risk Weighted Assets ~~Risk Capital Requirement~~; or
- (b) where the Expenditure Based Capital Minimum forms the Capital Requirement of the firm under section 3.4:
- (i) CET1 Capital equating to at least 60% of the firm's Expenditure Based Capital Minimum; and
- (ii) T1 Capital equating to at least 80% of the firm's Expenditure Based Capital Minimum.
- (3) The CET1 Capital used to meet the requirement in (2)(a) must not also be used as a component of ~~the Capital Conservation~~ Buffer.

Guidance

- ~~1. It follows from Rules 3.2.7(2)(a) and (b) together with Rule 3.2.3 that an Authorised Firm cannot use T2 Capital to meet more than 20% of its Risk Capital Requirement or Expenditure Based Capital Minimum (as applicable).~~
1. It follows from Rule 3.2.7(2)(a) and Rule 3.2.3 that an Authorised Firm cannot use T2 Capital of more than 2% of its Risk Weighted Assets to meet its Risk Capital Requirement.
2. It follows from Rule 3.2.7(2)(b) and Rule 3.2.3 that an Authorised Firm cannot use T2 Capital to meet more than 20% of its Expenditure Based Capital Minimum.
- ~~32. In accordance with Rules 3.9.5, 3.9A.3 and 3.9B.4, the CET1 Capital used for the a Capital Conservation Buffer cannot constitute CET1 Capital for meeting the Risk Capital Requirement.~~

PART 3 – Calculating the Capital Requirement

3.3 Capital Requirements for Categories 1 and 5

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- 3.3.2** (1) The Capital Requirement for an Authorised Firm is calculated, subject to (2), as the higher of:
- (a) the applicable Base Capital Requirement ~~as set out in section 3.6;~~
or
 - (b) its Risk Capital Requirement ~~as set out in section 3.8~~ plus applicable Capital Buffer Requirements.
- (2) Where ~~1(b) is the higher and~~ the Authorised Firm has an ICR imposed on it then the Capital Requirement is its ICR plus Risk Capital Requirement plus applicable Capital Buffer Requirements.

Guidance

1. An Authorised Firm should refer to chapters 4, 5 and 6 to determine whether it is required to calculate a Credit Risk Capital Requirement (also referred to in this module as CRCOM), a Market Risk Capital Requirement or an Operational Risk Capital Requirement, respectively.
2. The Displaced Commercial Risk Capital Requirement will only apply to an Authorised Firm Managing a PSIAu.
3. An Authorised Firm will also need to consider the relevant provisions in IFR chapter 5 when calculating its Credit Risk and Market Risk for Islamic Contracts.
4. ~~The DFSA may impose~~ If an Individual Capital Requirement (see chapter 10) is imposed on an Authorised Firm under Chapter 10, such ~~in circumstances where the Risk Capital Requirement is the higher or highest calculated amount in section 3.3 or 3.4. Such a requirement is additional to the Risk Capital Requirement and is, therefore, a component of the Authorised Firm's Capital Requirement.~~

3.4 Capital Requirements for Categories 2 and 3A

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- 3.4.2** (1) The Capital Requirement for ~~such~~ an Authorised Firm is calculated, subject to (2), as the highest of:
- (a) the applicable Base Capital Requirement ~~as set out in section 3.6;~~

- (b) the Expenditure Based Capital Minimum ~~as set out in section 3.7;~~
or
 - (c) its Risk Capital Requirement ~~as set out in section 3.8~~ plus applicable Capital Buffer Requirements.
- (2) ~~Where 1(c) is the highest and~~ the Authorised Firm has an ICR imposed on it then the Capital Requirement is its ICR plus Risk Capital Requirement plus applicable Capital Buffer Requirements.

Guidance

1. An Authorised Firm should refer to chapters 4, 5 and 6 to determine whether it is required to calculate a Credit Risk Capital Requirement (also referred to in this module as CRCOM), a Market Risk Capital Requirement or an Operational Risk Capital Requirement, respectively.
2. An Authorised Firm will also need to consider the relevant provisions in IFR chapter 5 when calculating its Credit Risk and Market Risk for Islamic Contracts.
3. ~~The DFSA may impose~~ If the DFSA imposes an Individual Capital Requirement (see ~~chapter 10~~) on an Authorised Firm under chapter 10, such in circumstances where the Risk Capital Requirement is the higher or highest calculated amount in section 3.3 or 3.4. Such a requirement is additional to the Risk Capital Requirement and is, therefore, a component of the Authorised Firm's Capital Requirement.

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3.8 Risk Capital Requirement

3.8.1 This section applies to an Authorised Firm in Category 1, 2, 3A or 5.

Guidance

The Risk Capital Requirement ~~has the following key purposes:~~

- ~~a. it is a component of the calculation of the Capital Requirement under sections 3.3 and 3.4;~~
- ~~b. it is the key factor in the calculation of the Capital Conservation Buffer under section 3.9;~~
~~and~~
- ~~e. it is a key factor in the calculation of the capital components under Rule 3.2.7.~~

Calculation of Risk Capital Requirement

3.8.1A An Authorised Firm must calculate its Risk Capital Requirement as 10% of its Risk Weighted Assets.

Risk Weighted Assets

3.8.2 An Authorised Firm must calculate its Risk Weighted Assets~~Risk Capital Requirement~~ as 12.5 multiplied by the sum of the following:

- (a) the CRCOM;
- (b) the Market Risk Capital Requirement;
- (c) the Operational Risk Capital Requirement; and
- (d) the Displaced Commercial Risk Capital Requirement, where applicable.

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3.9 Capital Conservation Buffer

3.9.1 This section applies to an Authorised Firm in Category 1, 2, ~~3A~~ or 5.

3.9.2 Where, ~~pursuant to~~ under section 3.3 or 3.4, the Risk Capital Requirement in section 3.8 applies to an Authorised Firm ~~forms an Authorised Firm's Capital Requirement~~, then the firm is subject to a Capital Conservation Buffer Rrequirement.

3.9.3 The Capital Conservation Buffer Rrequirement is equivalent to ~~25%~~ 2.5% of an Authorised Firm's Risk Weighted Assets~~Risk Capital Requirement~~ and must constitute only CET1 Capital.

- 3.9.4**
- (1) An Authorised Firm must maintain the required buffer amount, calculated in accordance with Rule 3.9.3, at all times.
 - (2) The Capital Conservation Buffer Rrequirement applies on both a solo and a consolidated basis, for Authorised Firms forming part of Financial Groups.

3.9.5 An Authorised Firm must not apply CET1 Capital that is it maintained to meet the Capital Conservation Buffer Rrequirement towards meeting:

- (a) any Individual Capital Requirement as the DFSA may be imposed on it pursuant to chapter 10; ~~or~~
- (b) ~~the firm's~~ its Risk Capital Requirement;
- (c) its Countercyclical Capital Buffer Requirement; or
- (d) its HLA Capital Buffer Requirement.

3.9A Countercyclical Capital Buffer (CCyB)

Guidance

1. This section sets out when an Authorised Firm must maintain a Countercyclical Capital Buffer (CCyB) and how the buffer is calculated.
2. A Countercyclical Capital Buffer is intended to take into account the macro-financial environment in which firms operate. If national authorities consider that excess credit growth has led to a build-up of system-wide risk, they can impose this measure to ensure the financial system has a buffer of capital to protect it against future potential losses.
3. An Authorised Firm will need to maintain a Countercyclical Capital Buffer only if it has a credit exposure in a jurisdiction where a CCyB Authority has imposed a CCyB Rate.
4. The Countercyclical Capital Buffer is in addition to the capital required under the Risk Capital Requirement and the Capital Conservation Buffer Requirement.

3.9A.1 This section applies to an Authorised Firm if it:

- (a) is in Category 1, 2 or 5; and
- (b) has a Non-Financial Private Sector Credit Exposure in a jurisdiction for which a CCyB Rate applies.

Countercyclical Capital Buffer Requirement

3.9A.2 An Authorised Firm must maintain a Countercyclical Capital Buffer of CET1 Capital that is calculated using the formula:

$$\text{CCyB} = \text{CCyB Rate} \times \text{RWA}$$

where:

- (a) “CCyB” is the Countercyclical Capital Buffer that the Authorised Firm must maintain;
- (b) “CCyB Rate” is the weighted average of Countercyclical Capital Buffer Rates, calculated in accordance with Rule 3.9A.5, that apply in jurisdictions in which the Authorised Firm has Non-Financial Private Sector Credit Exposures; and
- (c) “RWA” is the value of the Authorised Firm’s Risk Weighted Assets.

Guidance

1. The CCyB Requirement applies to credit exposures of an Authorised Firm that are ‘Non-Financial Private Sector Risk Exposures’. Rule 1.2.1 defines that expression to exclude credit exposures to other banks or to sovereigns, government bodies or agencies, or multilateral development banks.

2. An Authorised Firm will need to follow the following steps to calculate its CCyB Requirement:
 - a. identify the jurisdictions in which it has Non- Financial Private Sector Credit Exposures (Rule 3.9A.6 sets out how to determine the location of an exposure);
 - b. identify if a CCyB Rate applies in that jurisdiction and, if so, the date on which it takes effect (see Rules 3.9A.7 to 3.9A.9);
 - c. determine the weighted average of CCyB Rates applying to it (see Rule 3.9A.5); and
 - d. multiply the weighted average by the value of its Risk Weighted Assets.

3.9A.3 An Authorised Firm must not apply CET1 Capital that it maintains to meet the Countercyclical Capital Buffer Requirement towards meeting:

- (a) its Risk Capital Requirement;
- (b) its Capital Conservation Buffer Requirement;
- (c) an HLA Capital Buffer Requirement; or
- (d) an Individual Capital Requirement that the DFSA may impose on it under chapter 10.

3.9A.4 The Countercyclical Capital Buffer Requirement applies on both a solo and a consolidated basis for Authorised Firms forming part of a Group.

Weighted Average of CCyB Rates

- 3.9A.5** (1) The rate to be used to calculate an Authorised Firm’s Countercyclical Capital Buffer is the weighted average of the CCyB Rates that apply in jurisdictions in which it has Non-Financial Private Sector Credit Exposures.
- (2) The weighting applied to the CCyB Rate in each jurisdiction is the risk-weighted amount of an Authorised Firm’s Non-Financial Private Sector Credit Exposures in that jurisdiction, divided by the risk-weighted amount of its Non-Financial Private Sector Credit Exposures in all jurisdictions.

Determining the location of credit exposures

- 3.9A.6** (1) This Rule specifies how an Authorised Firm must determine the jurisdiction in which it has a Non-Financial Private Sector Credit Exposure.
- (2) The jurisdiction in which an Authorised Firm has an exposure is to be determined by allocating the exposure to the jurisdiction where, to the best of the Authorised Firm’s knowledge and information, the risk ultimately lies.

- (3) If it is not reasonably possible to determine the jurisdiction of an exposure under (2), then the jurisdiction in which the Authorised Firm has the exposure is the jurisdiction where the exposure is booked.

Guidance

1. The location of an Authorised Firm's credit exposure is determined according to the concept of 'ultimate risk', i.e. the location where the risk ultimately lies. This is usually the location of the counterparties, irrespective of the Authorised Firm's own physical location or place of incorporation.
2. The following examples illustrate how the concept of ultimate risk applies:
 - a. if a firm has an exposure to a borrower in country A, and the risk mitigant (e.g. a guarantor) is in country B, then the ultimate risk is in country B;
 - b. if, in the example in a, the exposure is only partly mitigated, then the ultimate risk would be split between the uncovered portion in country A and a covered portion in country B;
 - c. if a firm has an exposure to a borrower that is a Branch in country A, and the head office of the Branch is in country B, then the ultimate risk is in country B; and
 - d. if a firm has an exposure to a borrower in country A, and the exposure is to finance a project in country B, then the ultimate risk is in country B.

The CCyB Rate that applies in a jurisdiction

- 3.9A.7** (1) The Countercyclical Capital Buffer Rate for an exposure:
- (a) in the DIFC or elsewhere in the State, is the rate set by the Central Bank; and
 - (b) outside the State, is the rate set by the CCyB Authority for that jurisdiction, unless the DFSA has specified a rate under Rule 3.9A.8, in which case that specified rate applies.
- (2) If the rate specified by a CCyB Authority is more than 2.5% then it is taken to be equal to 2.5%, unless the DFSA specifies otherwise.
- 3.9A.8** (1) If the DFSA considers that the CCyB Rate in a jurisdiction outside the State is not sufficient to protect Authorised Firms from the risks of excessive credit growth in that jurisdiction, it may, for credit exposures in that jurisdiction:
- (a) specify a CCyB Rate even though no rate is imposed by the CCyB Authority for that jurisdiction; or
 - (b) specify a CCyB Rate that is higher than the rate imposed by the CCyB Authority for that jurisdiction.
- (2) If the DFSA specifies a rate under this Rule, then that rate applies for Non-Financial Private Sector Credit Exposures in the jurisdiction.

- (3) The DFSA may vary or cancel a specified rate under this Rule.
- (4) The DFSA must notify affected Authorised Firms if it specifies a rate, or if it varies or cancels a rate, under this Rule.

Effective date of CCyB Rates

- 3.9A.9**
- (1) This Rule specifies when a CCyB Rate takes effect for the purposes of calculating a CCyB Buffer under this section.
 - (2) A CCyB Rate for a jurisdiction takes effect from whichever is the later of:
 - (a) 12 months after the CCyB Authority announces the rate or the DFSA notifies the rate under Rule 3.9A.8 (as the case may be); or
 - (b) 1 July 2018.
 - (3) In exceptional circumstances, the DFSA may specify that a CCyB Rate is to take effect from a date earlier or later than that specified in (2).

Guidance

1. CCyB Rates are usually specified to apply after an advance announcement period i.e. a period between when it is announced and when it takes effect, which gives Authorised Firms sufficient time to adopt the new capital buffer. The effect of Rule 3.9A.9(2)(a) is that Authorised Firms will usually have 12 months from the announcement to adopt a buffer.
2. As a transitional measure, Rule 3.9A.9(2)(b) has the effect that Authorised Firms will have at least 6 months from the day on which this section commences (1 January 2018) to adopt a buffer, even if the relevant rate was announced 12 months before the day the section commences.

For example: If a CCyB Authority announced on 1 February 2017 a CCyB Rate of 1% that would apply to credit exposures in its jurisdiction, this would usually take effect on 1 February 2018. However, under Rule 3.9A.9(2)(b), instead an Authorised Firm has until 1 July 2018 (6 months after the commencement of this Rule) to adopt the buffer.

3.9B HLA Capital Buffer

Guidance

Under section 1.4, the DFSA may designate an Authorised Firm as a systemically important bank (SIB). This section requires a SIB to maintain a further capital buffer, a higher loss absorbency capital buffer (HLA Capital Buffer), and sets out how the HLA Capital Buffer is calculated.

- 3.9B.1** This section applies to an Authorised Firm in Category 1, 2 or 5 that the DFSA has designated as a SIB.

HLA Capital Buffer Requirement

3.9B.2 A SIB must maintain an HLA Capital Buffer of CET1 Capital that is calculated using the following formula:

$$\text{HLA Capital Buffer} = \text{HLA Ratio} \times \text{Relevant RWA}$$

where:

“HLA Capital Buffer” is the HLA Capital Buffer that the Authorised Firm must maintain;

“HLA Ratio” is the ratio determined by the DFSA for that Authorised Firm under Rule 3.9B.6; and

“Relevant RWA”:

- (a) for a G-SIB, is the value of the its Risk Weighted Assets; or
- (b) for a D-SIB, is the value of its Risk Weighted Assets in jurisdictions for which it is considered to be systemically important.

3.9B.3 If an Authorised Firm is both a G-SIB and a D-SIB, the HLA Capital Buffer that applies under this section is the higher of the amount calculated under Rule 3.9B.2 for the firm as a G-SIB and the amount calculated under that Rule for the firm as a D-SIB.

3.9B.4 An Authorised Firm must not apply CET1 Capital that it maintains to meet an HLA Capital Buffer Requirement towards meeting:

- (a) its Risk Capital Requirement;
- (b) its Capital Conservation Buffer Requirement;
- (c) its Countercyclical Capital Buffer Requirement; or
- (d) an Individual Capital Requirement that the DFSA has imposed on it under chapter 10.

3.9B.5 The HLA Capital Buffer Requirement applies on both a solo and a consolidated basis for Authorised Firms forming part of a Group.

HLA ratio

- 3.9B.6** (1) The DFSA must determine an HLA Ratio for each Authorised Firm that it designates as a G-SIB or D-SIB.
- (2) The HLA Ratio determined under (1) for a D-SIB must be not less than 1% and not more than 3.5%.

- (3) The DFSA may vary the HLA Ratio determined under this Rule, provided that for a D-SIB the ratio as varied is within the range specified in (2).
- (4) The procedures in Schedule 3 to the Regulatory Law apply to a DFSA decision to set or vary an HLA Ratio for an Authorised Firm.
- (5) If the DFSA decides to set or vary an HLA Ratio, the Authorised Firm may refer the matter to the FMT for review.
- (6) Paragraphs (4) and (5) do not apply to a decision relating to the HLA Ratio for a G-SIB designated under Rule 1.4.1.

Guidance

1. The DFSA is likely to base the HLA Ratio it determines for a G-SIB on the rate specified for that G-SIB by the Financial Stability Board, in consultation with the Basel Committee. For a D-SIB, the DFSA will determine an HLA Ratio that is between 1% and 3.5% (see Rule 3.9B.6(2)).
2. The Schedule 3 procedures and the right of review by the FMT do not apply to a rate applied to a G-SIB designated under Rule 1.4.1. This is because the rate specified by the DFSA for such a G-SIB will be the rate recommended by the FSB and Basel Committee.

3.9C Failure to meet a Capital Buffer Requirement

Guidance

This section sets out measures that an Authorised Firm must take if it is not meeting a Capital Buffer Requirement, i.e. its Capital Conservation Buffer Requirement, CCyB Requirement or HLA Capital Buffer Requirement. The measures, such as not distributing capital and preparing a plan to restore capital, do not limit other action that the DFSA may take against the firm for failing to meet the requirement.

3.9C.1 This section applies to an Authorised Firm in Category 1, 2 or 5.

Restrictions on distributions

3.9C.26 Where an Authorised Firm fails to meet a Capital Buffer Requirement the Capital Conservation Buffer requirement, it must:

- (a) calculate the maximum distributable amount in accordance with Rule 3.9C.59;
- (b) ensure that it does not undertake any of the following actions until ~~such time as~~ it has calculated the maximum distributable amount and notified the DFSA under Rule 3.9C.64:
 - (i) make a distribution in connection with CET1 Capital;

- (ii) create an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the institution failed to meet a Capital Buffer Requirement ~~its—Capital Conservation Buffer requirement~~; or
- (iii) make payments on AT1 and T2 Capital instruments.

3.9C.37 An Authorised Firm must:

- (1) in subsequently taking any of the actions described in Rule 3.9C.26(b)(i) to (iii), ensure that it distributes no more than its calculated maximum distributable amount; and
- (2) prepare and submit a capital conservation plan pursuant to Rule 3.9C.842.

3.9C.48 For the purposes of Rule 3.9C.26(b)(i), a distribution in connection with CET1 Capital includes any of the following:

- (a) payment of cash dividends;
- (b) distribution of fully or partly paid bonus shares or other capital instruments;
- (c) a redemption or purchase by an institution of its own shares or other capital instruments;
- (d) a repayment of amounts paid up in connection with capital; or
- (e) a distribution of other items referred to in section 3.13 as eligible for inclusion as CET1 Capital.

3.9C.59 (1) In this section, a reference to a “maximum distributable amount” means the maximum amount that an Authorised Firm may distribute in connection with CET1 Capital as specified in Rules 3.9C.26 and 3.9C.37.

- (2) Subject to (3), an Authorised Firm must determine the maximum distributable amount by multiplying the sum specified in (a) by the factor determined under (b):
 - (a) the total of interim or year-end profits that were not included in CET1 Capital pursuant to Rule 3.13.2 and which have accrued after the most recent distribution of profits and after any of the actions referred to in Rule 3.9C.26(b);
 - (b) where the CET1 Capital of the Authorised Firm (which is not used to meet the Capital Requirement), expressed as a percentage of the firm’s ~~Risk Capital Requirement~~ RWA, is:

- (i) ~~less than 6.25%~~, within the first quartile (0%-25%) of its Capital Buffer, the factor is 0;
 - (ii) ~~within the range of $\geq 6.25\%$ to $< 12.5\%$~~ , within the second quartile (25%-50%) of its Capital Buffer, the factor is 0.2;
 - (iii) ~~within the range of $\geq 12.5\%$ to $< 18.75\%$~~ , within the third quartile (50%-75%) of its Capital Buffer, the factor is 0.4; and
 - (iv) ~~within the range of $\geq 18.75\%$ to $< 25\%$~~ , within the fourth quartile (75%-100%) of its Capital Buffer, the factor is 0.6.
- (3) If an Authorised Firm undertakes any action under Rule 3.9C.26(b), it must take that into account and reduce the maximum distributable amount accordingly.

3.9C.610 For the purpose of Rule 3.9C.26(b), where an Authorised Firm intends to distribute any of its distributable profits or intends to undertake an action referred to in Rule 3.9C.26(b)(i) to (iii), the Authorised Firm must notify the DFSA and provide the following information:

- (a) the amount of capital maintained by the Authorised Firm, subdivided as follows:
 - (i) CET1 Capital,
 - (ii) AT1 Capital, and
 - (iii) T2 Capital;
- (b) the amount of its interim and year-end profits;
- (c) the maximum distributable amount calculated in accordance with this section; and
- (d) the amount of distributable profits it intends to allocate between the following:
 - (i) dividend payments,
 - (ii) share buybacks,
 - (iii) payments on AT1 Capital instruments, and
 - (iv) the payment of variable remuneration or discretionary pension benefits, whether by creation of a new obligation to pay, or by payment pursuant to an obligation to pay created at a time when the institution failed to meet a Capital Buffer Requirement~~its Capital Conservation Buffer requirement~~.

Guidance

Upon receiving a notification under this Rule, the DFSA will make an assessment of the firm's ability to meet and maintain its Capital Requirement on a sustainable basis going forward.

3.9C.744 An Authorised Firm must maintain systems and processes to ensure that the amount of distributable profits and the maximum distributable amount are calculated accurately, and must be able to demonstrate that accuracy to the DFSA on request.

Capital conservation plan

3.9C.812 Where an Authorised Firm fails to meet a Capital Buffer Requirement ~~the Capital Conservation Buffer requirement~~, it must prepare a capital conservation plan and submit it to the DFSA no later than 5 business days after it identified its failure to meet the Capital Buffer Requirement ~~Capital Conservation Buffer requirement~~. The capital conservation plan must include the following:

- (a) estimates of income and expenditure and a forecast balance sheet;
- (b) measures to increase the Capital Resources of the Authorised Firm;
- (c) a plan and timeframe for the increase of own funds with the objective of restoring the Capital Conservation Buffer; and
- (d) any other information the DFSA might need in order effectively to carry out its considerations referred to in Rule 3.9C.913.

3.9C.913 (1) Following assessment, the DFSA will approve the capital conservation plan only if it considers that the plan, if implemented, would be reasonably likely to conserve or raise sufficient capital to enable the Authorised Firm to meet its Capital Requirement and Capital Buffer Requirement ~~the Capital Conservation Buffer requirement~~, within a period that the DFSA considers appropriate.

- (2) If the DFSA does not approve the capital conservation plan, the DFSA may require the Authorised Firm to increase its CET1 Capital to meet the Capital Requirement and the Capital Buffer Requirement ~~Capital Conservation Buffer requirement~~, within a specified period of time.

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PART 5 – Calculating the Leverage Ratio

3.18 Leverage Ratios

3.18.1 This section applies to an Authorised Firm in Category 1, 2 or 5.

Guidance

This section is relevant to an Authorised Firm that is required to report its Leverage Ratio to the DFSA under chapter 2, or to disclose its Leverage Ratio under chapter 11, of these Rules.

3.18.2 An Authorised Firm must calculate its Leverage Ratio in accordance with the following formula:

$$\text{Leverage Ratio} = \text{Capital Measure} \div \text{Exposure Measure}$$

Where:

- (a) “Capital Measure” represents Tier 1 Capital of the Authorised Firm calculated in accordance with Rule 3.12.1; and
- (b) “Exposure Measure” represents the value of exposures of the Authorised Firm calculated in accordance with Rule 3.18.3.

3.18.3 For the purpose of determining the Exposure Measure, the value of exposures of an Authorised Firm must be calculated in accordance with the International Financial Reporting Standards (IFRS) subject to the following adjustments:

- (a) on-balance sheet, non-derivative exposures must be net of specific allowances and valuation adjustments (e.g. credit valuation adjustments);
- (b) physical or financial collateral, guarantees or credit risk mitigation purchased must not be used to reduce on-balance sheet exposures; and
- (c) loans must not be netted with deposits.

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4 CREDIT RISK

Introduction

Guidance

1. Chapter 4 deals with the prudential requirements relating to the management of Credit Risk by an Authorised Firm. Credit Risk refers to risk of incurring losses due to failure on the part of a borrower or a counterparty to fulfil their obligations in respect of a financial transaction.
2. This chapter aims to ensure that an Authorised Firm holds sufficient regulatory capital of acceptable quality so that it can absorb unexpected losses arising out of its Credit Risk exposures, should the need arise and that it continues to operate in a sustainable manner.
3. This chapter requires an Authorised Firm to:
 - a. appropriately apply a risk-weight to all on-balance sheet assets and off-balance sheet exposures for capital adequacy purposes. A risk-weight is based on a Credit Quality Grade aligned with the likelihood of counterparty default;
 - b. calculate the Credit Risk Capital Requirement for its on-balance sheet assets and off-balance sheet exposures; and
 - c. reduce the Credit Risk Capital Requirement for its on-balance sheet assets and off-balance sheet exposures where the exposure is covered fully or partly by some form of eligible Credit Risk mitigant.
4. Appendix 4 provides detailed requirements, parameters, calculation methodologies and formulae in respect of the primary requirements outlined in chapter 4.

PART 1 – Application

4.1 Application

- 4.1.1** This chapter applies to an Authorised Firm in Category 1, 2, 3A or 5.

Guidance

1. This chapter imposes systems and controls pertaining to Credit Risk, and prescribes the manner of calculation of the Credit Risk Capital Requirement (also referred to in this module as CRCOM).
2. Rules 3.8.2 and 3.8.3 provide that the CRCOM is a component in the calculation of the overall Risk Capital Requirement of an Authorised Firm, and that the CRCOM is to be calculated in accordance with this chapter 4.
3. The Rules in section 4.8 provide that the Authorised Firm's CRCOM is ~~8~~10% of the Credit RWA of the firm, which in turn is calculated as the sum of:

- a. the RWA for Credit Risk Exposures (CR Exposures); and
 - b. the RWA for securitisation Exposures (SE Exposures).
4. This chapter sets out the manner in which each of those components must be calculated, monitored and controlled by an Authorised Firm.
 5. In addition to complying with the applicable Rules in this chapter, an Authorised Firm investing in or holding Islamic Contracts whether or not for the purpose of a PSIA will need to take account of the provisions under IFR Rules 5.4.6 and 5.4.7 to calculate the Credit Risk for those Islamic Contracts.

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PART 3 - CRCOM

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4.8 Calculation of the CRCOM

4.8.1 (1) The Credit Risk Capital Requirement is calculated as follows:

$$\text{CRCOM} = \underline{8\%+10\%} \times \text{Credit RWA}$$

(2) The Credit RWA of an Authorised Firm is the sum of:

- (a) its risk weighted assets (RWA) for all its Credit Risk Exposures (referred to in this module as “CR Exposures”) calculated in accordance with Rules 4.8.2 and 4.8.3;
- (b) its RWA for all its securitisation Exposures (referred to in this module as “SE Exposures”) calculated in accordance with Rule 4.8.4 and section 4.14; and
- (c) its RWA for its Counterparty Risk Exposures as calculated in accordance with sections A4.6 to A4.8.

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11 DISCLOSURE REQUIREMENTS

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11.1 Application and general obligation of disclosure

Guidance

The purpose of the requirements in this chapter is to ensure that minimum public disclosures are made available to market participants to assist them in forming an opinion on the risk profile and capital adequacy of an Authorised Firm. The DFSA expects an Authorised Firm to convey its actual risk profile to market participants.

11.1.1 An Authorised Firm in Category 1, 2 or 5 must make the disclosures as prescribed in this chapter.

11.1.2 (1) An Authorised Firm which is a member of a Financial Group must, subject to (2), ensure that the disclosures specified in App11 are made at Financial Group level.

- (2) An Authorised Firm which is a Subsidiary of
- (a) a Regulated Financial Institution; or
 - (b) another Authorised Firm which is in Category 1, 2 or 5;

which is already subject to equivalent public disclosure requirements, does not need to comply with the requirements in this chapter to the extent that it meets those equivalent public disclosure requirements.

11.1.3 An Authorised Firm must disclose the quantitative indicators in Table 15 of App 11 if it is:

- (a) a G-SIB; or
- (b) in Category 1 or 5 and has a Leverage Ratio Exposure Measure of US\$ 200 Billion or more.

Guidance

An Authorised Firm does not have to disclose the information in Table 15 of App 11 if it is a subsidiary of another Regulated Financial Institution or Authorised Firm that has to disclose the information – see Rule 11.1.2.

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APP11 PUBLIC DISCLOSURE REQUIREMENTS

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Table 15 – Indicators for assessing systemic importance of firms

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|---------------------------------|-----|--|
| <u>Quantitative Disclosures</u> | (a) | <u>Cross-jurisdictional activity:</u> (i) <u>cross-jurisdictional claims; and</u> (ii) <u>cross-jurisdictional liabilities.</u> |
| | (b) | <u>Size – the total of its Leverage Ratio Exposure Measure.</u> |
| | (c) | <u>Interconnectedness:</u> (i) <u>intra-financial system assets;</u> (ii) <u>intra-financial system liabilities; and</u> (iii) <u>securities outstanding.</u> |

| | |
|--|---|
| | <p><u>(d)</u> <u>Substitutability:</u></p> <p><u>(i)</u> <u>assets under custody;</u></p> <p><u>(ii)</u> <u>payments activity; and</u></p> <p><u>(iii)</u> <u>underwritten transactions in debt and equity markets.</u></p> |
| | <p><u>(e)</u> <u>Complexity:</u></p> <p><u>(i)</u> <u>notional amount of over-the-counter (OTC) derivatives;</u></p> <p><u>(ii)</u> <u>level 3 assets within the meaning of IFRS 7; and</u></p> <p><u>(iii)</u> <u>trading and available-for-sale securities.</u></p> |