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WELCOME SPEECH – RETAIL FINANCIAL SERVICES IN THE DIFC

Good morning and welcome to this latest DIFC knowledge series presentations. It's my privilege to welcome you today to these discussions on retail financial services in the DIFC which I may add, I consider as critical service in a mature financial market!!

As the financial services regulator of the DIFC, it has been part of our task to assist the development of the Centre. The balance between applying rigorous standards and allowing businesses to develop in a progressive and fruitful way is always on the mind of the regulator and particularly in the DIFC.

This Centre was established on the three key elements of Integrity, Transparency and Efficiency. The architects of the Centre had high regulatory standards as a cornerstone of what was presented to the world. The DFSA has been pleased to develop and implement those standards. However, the DFSA has always wanted to apply regulations that are balanced and proportionate to the risks presented by the Centre and the firms that do business here. We also want to create an environment that allows businesses to flourish.

It was for this reason, almost two years ago that we began working on a plan to allow those firms that wished to, to engage in retail business in the DIFC.

Many of you will know that, prior to mid last year, authorised firms could only do business with clients who had $1 million or more of liquid assets and the DIFC was therefore regarded as a wholesale centre. While this may have been appropriate when the DIFC was new and finding its feet, we saw as time went on, no reason to continue this restriction which could be seen as limiting business opportunities for some firms. And so, we went out to consult with the market on removing the retail prohibition, subject to restrictions in the Federal Law.

The result is that, with a couple of exceptions, firms can choose to deal with retail clients, or, as we might expect most firms to do, continue their existing business model and deal for now with higher net worth customers.

One exception for retail involvement is that firms can't take deposits from retail clients. Nor can they lend to them, unless they are what are known as "undertakings", that is, non individuals. These exceptions are largely because of restrictions in the Federal Law, but all other business can be directed to retail clients.

I mentioned that most firms would, we expect, opt to continue dealing with higher net worth clients and that has proven to be the case. For those firms there is very little difference to how they do business. For those who want to go retail, they need an endorsement on their licence and there are the usual retail-type protections to be provided to clients. These are of the type one would see in any reputable financial centre and go, for example, to (i) increased disclosure, (ii) customer suitability and (iii)dispute resolution. This is worth to emphasize. It brings additional requirements to your organisation.

And so we think our introduction of a retail model, for those firms that want to take advantage of it, is a demonstration of our commitment to creating an environment that allows the DIFC to continue to develop, while still meeting appropriate international standards.

Let me say a few words now about how the DFSA is regulating in the current economic and regulatory climate. In these difficult times regulators and market participants have been severely tested and on many occasions, each has found wanting. There is a no doubt that many firms around the world have allowed risk to multiply on and off their balance sheets, at the same time that they were creating or dealing in ever more exotic products that were little understood.

It also needs to be said that this was happening under the noses of regulators who in some cases did not realise what was happening or, perhaps worse, did not intervene. I'm not going to spend today giving yet another analysis of what went wrong and how we got into the financial crisis. Many others have done that. I'm more interested in what happens going forward.

For the DFSA we will continue to focus on the business of carefully scrutinising firms applying for authorisation to conduct financial services business. We have recently changed our Authorisation Forms to make them more user-friendly and, while that should make some of the authorisation process easier, let me assure you that it does not mean a step back in our requirements.

Once authorised, you can expect the DFSA to maintain rigorous supervision of firms. We are this year keeping an appropriate number of on-site visits to firms. I strongly believe that the best way to understand the business of a firm is to be on the ground and to meet senior management face to face. This is, of course, only one tool used by the regulator in addition to our analysis of regulatory returns and the use of appropriately targeted theme reviews.

At times our on-site visits are to review a firm's systems and controls and to discuss the firm's view of its business and risk. At other times the visit might focus on a particular theme such as AML compliance, with closer co-operation with the Central Bank (MoU) or how the firm meets it's obligations regarding customer suitability – to name two recent theme reviews. In all cases our staff would inspect files and do a sampling of transactions to test firms compliance. This is the business of supervision.

I note that some commentators have questioned whether a strong face-to-face supervisory approach is appropriate given the maturing of the DIFC and the economic climate in which firms are operating. Let me say that I believe this is exactly the time for such a focus. The days of light touch regulation are gone, if they were ever appropriate. That is not to say that the DFSA will be heavyhanded – rather we will continue to apply our resources to the risks posed by firms and their activities.

I've noted that the CEO of the UK FSA in a recent speech said that in future, banks ought to be "very afraid" of the FSA, marking a shift in the regulatory style of that organisation. It is not our wish for our firms to be afraid of the DFSA; rather we want to be seen as a prudent regulator upholding the regulatory standards to which our firms have signed up. Actually we stress co-operation with firms, if you have a problem come and talk to us.

In this regard, I was somewhat heartened to note the responses by our Authorised Firms in the independent stakeholder survey in which many of you participated last year, conducted by Chant Link and Associates. In looking at the performance of the DFSA, a strong finding was that firms saw high regulatory standards as being a key reason for setting up in the DIFC. The survey also found that overall, firms gave a high score to the DFSA in respect of how we regulate and enforce.

Starting with our consideration of regulatory policy, through authorising and supervising firms and markets and, where necessary, enforcing, you can expect the DFSA to continue to be proportionate in our actions and transparent in our processes.

An initiative currently underway is a review of relevant points of our Rulebook to make sure our requirements are truly risk-based and proportionate. As always we will consult and work with you concerning any changes.

Let me finish by making a few comments about likely future regulatory changes, particularly what might come out of the international framework. You'll note that our Deputy Chief Executive, Ian Johnston, will cover this in more detail later.

You will have seen from the G20 and other fora that there is a mandate for the international standard setting bodies to close some perceived gaps in regulation and lift standards in certain areas. There is also a strongly expressed need for greater international co-operation between regulators. I'm not going to cover that agenda in detail now, but rather assure you that the DFSA recognises the importance of these developments and will be an active participant in the process – thought leader – with papers on fair value and private equity.

The DIFC is a truly international centre and many of you are part of international enterprises. If not, and you are a local or regional firm, the regulatory framework here will still be impacted by these international regulatory developments. The DFSA business plan notes the importance and growing influence of global standards and we are ensuring we have a voice and where possible an active presence in shaping likely international responses. We see this international presence as an important part of keeping the DIFC as an attractive, well-regulated jurisdiction and a good place for you to do business which includes as we discussed today retail financial services.

Thank you and I wish you lots of success in your business endeavours.