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COVER STORY

FSRA Consultation Paper No. 2 of 2025

Review of Prudential Framework for Lower-Risk Firms

The Financial Services Regulatory Authority (**FSRA**) of Abu Dhabi Global Market (**ADGM**) has issued Consultation Paper No. 2 of 2025, proposing key amendments to the prudential framework for firms in Categories 3B, 3C, and 4. These firms are generally considered lower risk, especially those not permitted to hold Client Assets or Insurance Money. The proposed changes aim to simplify capital requirements and reporting obligations while maintaining financial safeguards.

THIS ISSUE

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Simplifying Capital Requirements

Currently, Category 4 firms are subject to both a Base Capital Requirement (BCR) and an Expenditure-Based Capital Minimum (EBCM). The FSRA proposes to remove the EBCM requirement for Category 4 firms that do not hold Client Assets or Insurance Money, significantly reducing capital complexity for these low-risk firms. The BCR alone would apply to such entities.

In line with this change, the FSRA also proposes to increase the BCR from USD 10,000 to USD 50,000. Although this is a nominal increase, supervisory data shows it would actually reduce the capital burden for many firms by removing the typically higher EBCM obligation.

For firms engaged in the activity of Providing Custody (except where this involves Public Funds), the FSRA recommends reducing the capital requirement to USD 250,000, compared to the current threshold of USD 4 million for custody of Fund assets.

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Reducing Regulatory Burden:

The FSRA seeks to further streamline oversight by removing the Internal Risk Assessment Process (IRAP) reporting requirement for Category 3B and 3C firms. These reports are currently submitted annually or upon significant business changes, and eliminating them would reduce compliance workload.

Another notable proposal is to exempt branches from the requirement to maintain Professional Indemnity Insurance (PII). Since branches rely on the financial resources of their parent entities and are not subject to standalone prudential capital requirements, this exemption aligns with their risk profile.

Enhancing PII Standards:

For firms still required to maintain PII, the FSRA proposes introducing minimum standards to ensure effective coverage. These include requiring insurance from a regulated provider with a credit rating equivalent to Credit Quality Grade 3 or better, and ensuring the policy includes continuous cover, legal defense costs, and liability for acts of employees, directors, and agents.

Instead of submitting a full PII policy annually, firms would submit a confirmation statement approved by their Governing Body, verifying that the coverage meets FSRA's prescribed standards.

Technical Updates and Feedback Areas:

The FSRA also proposes clarifying that a BCR of USD 150,000 or USD 50,000 applies to firms that only manage Collective Investment Funds under Category 3C. Additionally, it plans to update PRU Chapter 10 to confirm that its requirements apply to Domestic Firms only, not branches.

Beyond the immediate proposals, the FSRA invites feedback on potential future reforms, such as adjusting prudential rules for Category 2 and 3A firms, or modifying capital requirements for firms engaged in Dealing in Investments as Matched Principal, as they are not subject to the same degree of prudential risk as firms Dealing in Investments as Principal.

Conclusion

Overall, the FSRA's proposals reflect a more proportionate and risk-based regulatory approach. By easing capital and reporting obligations for firms with limited risk exposure, the changes support a more efficient business environment while preserving investor protection and market integrity.

The proposals also demonstrate a shift toward a more principles-based framework. For example, while the FSRA is introducing minimum standards for Professional Indemnity Insurance, it has deliberately avoided imposing prescriptive limits on policy coverage or deductibles. This maintains flexibility for firms while ensuring meaningful protection against liability risks.

Taken together, these reforms signal a clear intention by the FSRA to calibrate its prudential rules more closely to actual risk, reduce unnecessary compliance burdens, and foster a regulatory environment that remains robust yet commercially practical.

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THOUGHT LEADERSHIP

DIFC Compliance Obligations

Entities operating within the Dubai International Financial Centre (DIFC) are subject to a comprehensive set of regulatory and compliance obligations that reflect the DIFC alignment with international standards and best practices. As one of the region's most prominent financial hubs, the DIFC continuously enhances its regulatory environment through increased supervisory oversight, structured reporting obligations, and robust enforcement mechanisms.

DIFC entities must comply with requirements set by the DIFC Authority and if licensed, the entity shall comply with the Dubai Financial Services Authority (DFSA), including licensing conditions, anti-money laundering (AML) and counter-terrorist financing (CTF) obligations, data protection rules, and financial reporting standards.

General Compliance Obligations
The below specific obligations may vary depending on the type of entity, regulatory status, and business activities conducted in or from the DIFC:

· Annual license renewal

- Maintaining a register of stakeholders
- Filing CRS and FATCA self-assessments
- CRS and FATCA audit questionnaires
- Submission of a risk assessment report
- Filing of CRS and FATCA reports via the UAE Ministry of Finance (MoF) portal
- Completion of the DIFC Compliance Assessment
- Submission of the Fintech Compliance Assessment

AAbout FATCA/CRS Compliance
DIFC entities that received the FATCA/CRS self-assessment notification from **crsfatca@difc.ae** were required to submit their completed forms by April 10, 2025. This assessment is part of the UAE's broader commitment to Automatic Exchange of Information (AEOI) under international tax cooperation frameworks.
DIFC entities (as required) must classify themselves as:

- Reporting Financial Institutions
- Non-Reporting Financial Institutions
- Active Non-Financial Entities (NFEs)
- Passive Non-Financial Entities (NFEs)

In addition to self-assessments, entities must ensure timely and accurate reporting of financial accounts held by reportable persons and controlling individuals via the UAE MoF portal, if required. The information is then exchanged with partner jurisdictions under FATCA (with the U.S. IRS) and CRS (with peer tax authorities).
The DIFC Authority may also request ad hoc clarifications or additional reports, especially where inconsistencies or gaps are observed.

Consequences of Non-Compliance
Failure to meet any of the above obligations, whether due to missed deadlines, inadequate documentation, or incorrect classification, may result in financial penalties, public disclosure, corrective orders, or license suspension or revocation in severe or repeated cases
To mitigate risk, DIFC entities are expected to implement and maintain a compliance framework that includes regular staff training, documented policies and procedures, and board-level oversight.

Rasma Legal can support DIFC entities in handling their annual compliance obligations by offering end-to-end assistance with regulatory filings, classification assessments, and ongoing compliance monitoring to ensure full alignment with DIFC requirements.

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Team Spotlight

Happy Easter from Rasma Legal!

Wishing you a joyful and peaceful holiday filled with hope, and new beginnings.

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DRIVING CHANGE THROUGH INNOVATIVE EXPERTISE

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Rasma Legal is a multi-service law firm catering to the innovation economy. The firm is headquartered in the United Arab Emirates (UAE) and has branches in Saudi Arabia (KSA) and Lebanon. Led by the expertise and leadership of Mazen Rasamny, Rasma Legal stands as a beacon of legal excellence, equipped to guide clients through their diverse legal undertakings. Having an extensive legal background spanning over 23+ years, Mazen Rasamny brings a wealth of knowledge and experience to the table.

The firm is focused on innovation and growth and has been instrumental in providing comprehensive legal services to entrepreneurs and start-ups in areas such as M&A, Corporate and Commercial laws, Debt & Equity Capital Markets, Banking & Finance (including Project Finance), Corporate & Financial Restructuring, Energy, Infrastructure, and Project Development.

The firm has also been recognized by several leading legal publications such as Asian Legal Business, IFLR1000, The Legal 500, Legal Era, The Law and more.

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