

*Response To Consultation Paper No. 165:*

# **Proposed Changes To The DFSA's Approach To Licensed Functions And Authorised Individuals**

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Via online submission

**Re: Response To Consultation Paper No. 165: Proposed Changes To The DFSA's  
Approach To Licensed Functions And Authorised Individuals**

Q1. Do you have any comments on the proposal in paragraph 21 to remove Compliance Officers, Finance Officers, and Senior Managers as Licensed Functions and Authorised Individuals at Authorised Firms and classify these roles as Designated Functions and Designated Individuals?

We support the proposal outlined in paragraph 21 to reclassify Compliance Officers, Finance Officers, and Senior Managers from Licensed Functions to Designated Functions fulfilled by Designated Individuals. This approach appropriately recognises the importance of these roles within Authorised Firms while streamlining the current regulatory framework. Classifying these roles as "Designated" with the appointment of these roles by the Authorised Firm to ensure their suitability, aligns well with the DFSA's objective to foster efficiency and adopt a risk-based supervisory approach that avoids unnecessary regulatory burden.

This proposed change enhances operational flexibility for firms, and will in turn potentially lower barriers to entry and simplify administrative processes, especially for smaller firms or new entrants. By removing the licensing requirement for these specific functions, the proposal contributes positively to the DFSA's strategic goal of promoting the development and accessibility of the financial services industry within the DIFC. This adjustment facilitates broader participation while ensuring key internal control functions remain clearly defined and accountable.

Further, this proposal correctly maintains the Authorised Firm's responsibility for ensuring that individuals appointed to these Designated Functions are fit and proper, possess the necessary competence, and are subject to appropriate internal governance and oversight.

Q2. Do you have any comments on whether the proposal in paragraph 21 should apply to all Authorised Firms or to specific categories of firms?

N/A

Q3. Do you have any comments on our proposals to apply the assessment criteria for Authorised Individuals to Designated Individuals?

An assessment criteria is helpful for Designated Individuals. Regarding specific roles, we suggest considering flexibility in the distinct separation of the Compliance Officer (CO) and Money Laundering Reporting Officer (MLRO) functions, particularly for firms in earlier stages or with simpler structures, as these roles possess natural synergies. Competence for the CO role, including necessary AML knowledge, could be effectively demonstrated through relevant experience or qualifications. Furthermore, we support the proposed removal of the UAE residency requirement for Finance Officers, acknowledging the feasibility of remote working arrangements or group-level shared services, which reflects modern operational realities and promotes flexibility without compromising oversight, provided robust controls are in place.

Q.4. Do you have any comments on our proposal to require Authorised Firms to retain records of assessments?

We endorse the requirement for Authorised Firms to conduct annual reviews of the fitness and propriety of their Designated Individuals and maintain appropriate records.

Q5. Do you have any comments on our proposals to introduce a requirement for Authorised Firms to notify the DFSA on the appointment and removal (including the reason why) of a Designated Individual?

We agree with the proposal requiring Authorised Firms to notify the DFSA upon the appointment and removal of Designated Individuals, including the reason for removal. We also believe providing a standardised notification template would enhance consistency and efficiency for both firms and the DFSA.

Regarding the proposed notification timeframe of seven calendar days, we suggest considering a slightly more flexible period, such as seven or ten business days. This adjustment would account for weekends and public holidays, providing firms with a practical window to complete internal processes before submitting the notification, while still ensuring timely updates to the regulator. Benchmarking against international regulators like Hong Kong's SFC (7 business days) or Australia's ASIC (10 business days for key personnel) indicates that a 7-to-10 business day timeframe remains

consistent with international practice for roles impacting a firm's compliance and operational standing.

Prompt notification, particularly of removals and the underlying reasons, is vital should issues concerning fitness and propriety arise.

**Q6. Do you have any comments on our proposals to introduce a requirement for an Authorised Firm to have arrangements in place to ensure that i) an individual appointed to a Designated Function remains fit and proper for that role and; ii) annually attest that its Designated Individuals remain suitable to carry out their roles?**

We support the proposal to introduce a formal requirement for Authorised Firms to implement arrangements ensuring Designated Individuals remain fit and proper, complemented by an annual attestation of their ongoing suitability. This requirement is a key pillar of effective governance and operational risk management within firms. Regularly reviewing the fitness and propriety of individuals in key functions is essential for maintaining high standards of conduct and competence, directly aligning with the DFSA's objective of protecting users and fostering confidence in the financial services industry.

The proposed annual attestation serves to ensure that this ongoing assessment is embedded within a firm's regular compliance and risk management cycle. It reinforces the firm's accountability for the individuals it appoints to Designated Functions and ensures that assessments are current, reflecting any changes in circumstances or performance. This approach helps ensure that key personnel continue to meet the standards necessary to uphold the integrity and reputation of the firm.

**Q7. Do you have comments on our proposal in paragraph 33 regarding the combination of Licensed and Designated Functions?**

The ability to combine Licensed and Designated Functions requires careful consideration, and should be focused on managing conflicts of interest. With any combined roles, the priority and approach should be proportional, taking into account the nature, scale, and complexity of the Authorised Firm's business. While combining roles may be appropriate and efficient for smaller firms or those with simpler operating models, robust arrangements must be in place to identify and mitigate any actual or potential conflicts. There should be a degree of flexibility where conflicts are clearly managed, perhaps guided by thresholds set by the DFSA.

Regardless, as firms grow in size and complexity, there may be a greater need to separate duties to support effective governance and control. Certain combinations, such as merging core oversight functions (like Compliance or Finance) with

business-generating roles, should generally be avoided due to inherent conflicts. The primary consideration must always be ensuring that any combination of functions does not compromise the individual's ability to perform each role effectively and objectively.

**Q 8. Do you have any comments on our proposal to amend the definition of the Finance Officer function?**

N/A

**Q9. Should a Finance Officer continue to be a mandatory appointment for all Authorised Firms? If not, why not?**

We recommend reconsidering the mandatory appointment of a designated Finance Officer for all Authorised Firms, as this may not be proportionate for firms of varying sizes and complexities, potentially creating barriers for smaller entities or new entrants. Instead, we advocate for a focus on the requirement for firms to demonstrate robust financial control arrangements, allowing flexibility in how this is achieved – whether through an in-house officer, outsourcing to a qualified third party, or utilising group resources.

**Q10. Do you have any comments on our proposal to amend the definition of a Senior Manager and clarify that the Senior Manager role is only applicable to those not already holding another specified Licensed or Designated Function?**

We acknowledge the intention behind clarifying the definition of a Senior Manager, particularly specifying its application to individuals not holding other Licensed or Designated Functions. However, we are concerned that the current range of defined roles (Authorised Individual, Designated Individual, Relevant Employee, Relevant Individual, Senior Manager) may create unnecessary complexity and potential confusion for firms navigating the framework. Introducing further distinctions might detract from, rather than enhance, regulatory clarity.

Consideration could be given to streamlining the terminology used for individuals performing key functions within Authorised Firms. Focusing primarily on the well-defined categories of Licensed Functions (requiring Authorised Individuals) and Designated Functions (requiring Designated Individuals) might provide sufficient regulatory oversight and clarity. Allowing Authorised Firms the flexibility to structure their internal senior management hierarchy beyond these required roles, based on their own operational needs and governance frameworks, could simplify compliance without compromising regulatory objectives, aligning with the goal of fostering efficiency.



Ultimately, the framework should be clear, practical, and avoid ambiguity. It may be worth determining whether the specific 'Senior Manager' category, as distinct from Licensed or Designated roles, adds sufficient regulatory value to justify the potential increase in complexity. Simplifying the classifications could enhance understanding and application of the rules.

**Q11. Do you have any comments on our proposal to amend the definition of the Compliance Officer function?**

We agree that the Compliance Officer (CO) function is critical for ensuring adherence to regulatory requirements, including AML/CFT obligations, and for managing operational and compliance risks within an Authorised Firm. We support the emphasis on the CO possessing sufficient seniority, authority, and independence to perform their duties effectively. The individual appointed as CO need not necessarily hold the position of Director or Partner within the firm; the focus should rightly be on their demonstrated competence, experience, qualifications, and fitness and propriety to manage the firm's compliance risks adequately.

As noted in our earlier response, we believe there is merit in allowing firms, particularly smaller ones, the flexibility to combine the CO and MLRO functions where appropriate, provided the individual has the capacity and expertise to fulfil both roles effectively and manage any potential conflicts.

**Q12. Do you have any comments on our proposal to apply the Principles for Authorised Individuals to all Designated and Relevant Individuals in an Authorised Firm (except for ancillary staff) and name them Conduct Principles?**

We support the principle of applying high standards of conduct, reflected in the proposed Conduct Principles, to Designated and Relevant Individuals, reinforcing the importance of integrity (Principle 1), due skill, care, and diligence (Principle 2), and market conduct (Principle 6) across key functions. Extending these expectations promotes a culture of professionalism and aligns with the DFSA's objective of maintaining confidence in the financial services industry. However, careful consideration should be given to the universal application of every principle, such as Principle 4 concerning relations with regulators, to all individuals within scope, as direct regulatory interaction may not be relevant for every role. Ensuring the final principles are appropriately framed and proportionate for the broad range of individuals covered will be important for practical implementation and effectiveness.

Q13. Do you have any comments on our proposal to include Designated Individuals on the DFSA public register?

While we understand the objective of enhancing transparency through the public register, we question the necessity and proportionality of including all Designated Individuals. The primary benefit of a public register is often to allow external stakeholders to verify the status of individuals performing regulated activities or to identify key regulatory contacts within a firm. Including individuals in primarily internal oversight roles, such as the Finance Officer, who are not performing licensed functions directly impacting clients or markets, may not significantly advance these transparency goals and could represent unnecessary public disclosure.

Q14. Do you agree that the proposed changes should come into force on 1 September 2025? If not, why not?

N/A

Q15. Are any other transitional measures needed? If yes, please explain what they are, why they are needed, and how long any transitional period should be.

N/A

## About Shift Markets

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