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QATAR FINANCIAL CENTRE
REGULATORY AUTHORITY

Qatar Financial Centre Rules and Regulations

Edition 6, February 2020

This workbook relates to syllabus version 6 and will cover exams from **1 April 2020**

APPROVED WORKBOOK

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Welcome to the Chartered Institute for Securities & Investment's Qatar Financial Centre Rules and Regulations study material.

This workbook has been written to prepare you for the Chartered Institute for Securities & Investment's Qatar Financial Centre Rules and Regulations examination.

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The questions contained in this workbook are designed as an aid to revision of different areas of the syllabus and to help you consolidate your learning chapter by chapter.

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QATAR FINANCIAL CENTRE
REGULATORY
AUTHORITY

Foreword

The Qatar Financial Centre Regulatory Authority (Regulatory Authority) believes that individuals within the financial services industry must acquire and maintain the knowledge and experience to be able to deliver services of the highest quality to their clients, if they are to operate successfully within the QFC.

The Regulatory Authority launched its enhanced training and competence (T&C) regime on 1 January 2012. The T&C regime contains best international practice requirements for professional standards, examinations and continuing professional development. The regime applies to all authorised firms and to approved individuals performing or seeking to perform controlled functions in or from the QFC. The enhanced regime places significant importance on the continued improvement and strengthening of professional training and qualifications, which underpin the provision of competent professional financial services and serve ultimately to protect customers.

Under the T&C regime, certain key functions in authorised firms will be required to demonstrate regulatory and technical competence by passing relevant technical qualification examinations.

To help QFC firms and their employees best meet this mandatory requirement, the Regulatory Authority supports, in conjunction with the CISI, a 'QFC Rules and Regulations' training and exam programme which is designed to help equip individuals to operate successfully within the QFC and to test the understanding of those individuals of the professional standards needed to conduct their business.

This edition of the exam workbook continues to reinforce the Regulatory Authority's commitment to ensuring that firms and approved individuals in the QFC meet the highest standards.

Michael Ryan
CEO
QFC Regulatory Authority

Scope
The conduct focus of this 'QFC Rules and Regulations' training and exam module is on those individuals conducting investment business, in addition to certain types of insurance business in, or from, the QFC. The module also includes a broad coverage of the QFC regulations and rules which is designed to give individuals sufficient awareness to operate successfully within the QFC.

Editorial Team
QFC Regulatory Authority

Important – Keep Informed on Changes to this Workbook and Examination Dates

Changes in industry practice, economic conditions, legislation/regulations, technology and various other factors mean that practitioners must ensure that their knowledge is up to date.

At the time of publication, the content of this workbook is approved as suitable for examinations taken during the period specified. However, changes affecting the industry may either prompt or postpone the publication of an updated version.

It should be noted that the current version of a workbook will always supersede the content of those issued previously.

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The Chartered Institute for Securities & Investment is the leading professional body for those who work in, or aspire to work in, the investment sector, and we are passionately committed to enhancing knowledge, skills and integrity – the three pillars of professionalism at the heart of our Chartered body.

CISI examinations are used extensively by firms to meet the requirements of government regulators. Besides the regulators in the UK, where the CISI head office is based, CISI examinations are recognised by a wide range of governments and their regulators, from Singapore to Dubai and the US. Around 50,000 examinations are taken each year, and it is compulsory for candidates to use CISI workbooks to prepare for CISI examinations so that they have the best chance of success. Our workbooks are normally revised every year by experts who themselves work in the industry and also by our Accredited Training Partners, who offer training and elearning to help prepare candidates for the examinations. Information for candidates is also posted on a special area of our website: cisi.org/candidateupdate.

This workbook not only provides a thorough preparation for the examination it refers to, it is also a valuable desktop reference for practitioners, and studying from it counts towards your Continuing Professional Development (CPD). Mock examination papers, for most of our titles, will be made available on our website, as an additional revision tool.

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It is estimated that this workbook will require approximately 100 hours of study time.

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Chapter One

QFC Law and Financial Services Regulations

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This syllabus area will provide approximately 6 of the 75 examination questions

1. Introduction to the Qatar Financial Centre (QFC)

The Qatar Financial Centre (QFC) is a financial and business centre established by the Government of Qatar and located in Doha. The QFC has been designed to attract international financial services institutions and major multinational corporations and to encourage participation in the growing market for financial services in Qatar and elsewhere in the region.

The QFC operates to international standards and provides a first class legal and business infrastructure for those doing business within the centre. The QFC's commercial and regulatory environment and systems conform to international best practices and are separate from, and independent of, the host Qatari systems.

The QFC is operated by the Qatar Financial Centre Authority (QFCA), which is responsible for the commercial strategy and business development of the centre and provides its administrative functions. Regulatory systems are developed and operated by the Qatar Financial Centre Regulatory Authority (QFCRA).

1.1 Permitted Activities in the QFC

Learning Objective

1.1.6 Know which activities fall within the general categories of permitted activities

Financial Services Regulations (FSR), Schedule 3 – Regulated Activities and Permitted Activities, Part 4 – Activities in the QFC under the QFC Law

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QFC Law prescribes a range of activities (termed 'permitted activities') which may be conducted in or from the QFC. These activities are those most commonly recognised as constituting financial services or services found in support of financial services businesses, together with a number of related or corporate headquarters-type activities.

There are two sub-classifications within the range of permitted activities:

- **non-regulated activities**, which, as the name suggests, do not require extensive supervision, and
- **regulated activities**, which are those financial services (such as banking, insurance and securities businesses) that require close and continuing scrutiny to ensure prudential soundness and proper conduct.

Entities wanting to conduct regulated activities require **authorisation** by the QFCRA.

Source: extracts from the QFCRA's *A Guide to the Application Process*, Chapters 1 and 2.

QFC Law provides that no activities other than permitted activities may be carried on in the QFC. The following activities are the permitted activities itemised in QFC Law:

1. Financial, banking, and investment business. This includes, but is not limited to, all business activities that are generally provided by investment, corporate and wholesale financial institutions, as well as Islamic and electronic banking business.
2. Insurance and reinsurance business of all categories.
3. Money market, stock exchange and commodity market business of all categories, including trading and dealing in precious metals, stocks, bonds, securities, and other financial activities derived from these activities.
4. Money and asset management business, investment fund business, the provision of project finance and corporate finance in all business fields and Islamic banking and financing business.
5. Funds administration, fund advisory and fiduciary business of all kinds.
6. Pension fund business and the business of credit companies.
7. The business of insurance broking, stockbroking, and all other financial brokerage business.
8. Financial agency business and the business of provision of corporate finance and other financial advice, investment advice and investment services of all kinds.
9. The provision of financial custodian services and the business of acting as legal trustees.
10. Shipbroking and shipping agents.
11. Providing classification services and investment grading and other grading services.
12. Business activities of company headquarters, management offices and treasury operations and other related functions for all kinds of business, and the administration of companies generally.
13. Providing professional services including but not limited to audit, accounting, tax, consulting and legal services.
14. Business activities of holding companies, and the provision, formation, operation and administration of trusts and similar arrangements of all kinds.
15. Providing, forming, operating and administrating companies.

2. QFC Financial Services Regulations

2.1 Objectives of the QFC

Learning Objective

1.1.1 Know the objectives of the QFC Authority

Article 5 – Law No. 7 of 2005 – Objectives of the QFC Authority

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The QFC Law (Law No. 7 of 2005) was signed by the Emir of Qatar on 9 March 2005 and became effective on 1 May 2005. The QFC Law (as amended by Law No. 2 of 2009) provides for the basic structure of the QFC and establishes the QFC Authority, the QFCRA, the Civil and Commercial Court of the QFC and the QFC Regulatory **Tribunal**.

The commercial operations of the QFC are managed by the QFC Authority, which is established pursuant to Article 3 of the QFC Law.

The objectives of the QFC Authority are:

1. to establish, develop and promote the QFC as a leading location for international finance and business, designed to attract international banking, financial services, insurance businesses, corporate head office functions and other business
2. to participate, in consultation with the QFCRA and the **Appeals Body**, in the establishment and maintenance of an appropriate legal and regulatory regime to govern the QFC and activities lawfully conducted within or outside the QFC by **persons**, companies or entities established within it
3. to ensure the QFC, including the QFC Institutions (the **Companies Registration Office (CRO)**, the Tribunal and any other institution or body created under QFC law), have adequate finance, or are able to obtain adequate finance, so that they can finance their respective activities without undue difficulty and are financially stable
4. to act in accordance with and promote international best practice and to eliminate bureaucracy to the maximum extent possible, and
5. all other things reasonably considered by it to be necessary, desirable or appropriate to achieve, further or assist in relation to any of the above objects.

2.2 The QFCRA – Objectives

Learning Objective

1.1.2 Know the regulatory objectives by which the QFCRA exercises its functions and powers under the QFC Law

Article 12 (3) – Financial Services Regulations – Objectives of the Regulatory Authority

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The QFCRA exercises its functions and powers under QFC Law and these regulations, in accordance with its regulatory objectives, are set out in QFC Regulation No. 1 – FSR, Article 12 (3) The Objectives of the QFCRA.

The QFCRA is entitled to take any action (or refrain from any action) it considers necessary, desirable or appropriate for, or incidental to, the exercise of its functions and powers.

The objectives of the QFCRA are to:

1. promote and maintain the efficiency, transparency and integrity of the QFC
2. promote and maintain confidence in the QFC
3. maintain the financial stability of the QFC, including the reduction of systemic risk relating to the QFC
4. prevent, detect and restrain conduct which may cause damage to the reputation of the QFC, through appropriate means including the imposition of fines and other sanctions
5. provide appropriate protection to the licensed institutions, their clients and customers
6. determine appropriate protection, the QFCRA will take into account the following:
    a. the financial integrity of **authorised firms**. This includes establishing whether they have the appropriate financial resources in place as well as a robust system of internal controls

   b. the degrees of protection which may be appropriate for clients or customers of authorised firms. The degree of protection required is dependent on the clients' experience, expertise and business. Different types of clients will require different degrees of information
   c. the degree of risk involved in different kinds of investment or transaction, and
   d. the general principle that clients or customers of authorised firms should take responsibility for their own decisions
7. promote the understanding of the objectives of the QFC amongst users and other interested persons
8. ensure the QFCRA is run with a view to operating in accordance with the best international standards for the type of centre, and to establish and maintain the QFC as a leading financial centre in the Middle East
9. minimise the extent to which the business carried on can be used for the purposes of or in connection with financial crime. The QFCRA will in this respect take into consideration the appropriate systems, controls and procedures that need to be in place at the authorised firm to detect and prevent the incidence of financial crime.

2.3 Regulated Activities

Learning Objective

1.1.3 Know what constitutes a regulated activity: (Articles 22, 23, 24, 25 & Schedule 3, Part 2)

1.1.4 Know which activities do not constitute regulated activities (Schedule 3, Part 1)

2.3.1 Background

QFC Law states that only permitted activities can be carried out in or from the QFC. The permitted activities are set out in Articles 22–25 and Schedule 3, Part 4 of QFC Financial Services Regulations (see section 1.1). These are shown as business activities, rather than regulated activities.

In addition, QFC Law also states that no regulated activities can be carried out in or from the QFC, unless the appropriate approval, authorisation or licence has been formally obtained from the QFCRA.

2.3.2 Definition of a Regulated Activity

The QFC defines a regulated activity as an activity which falls within the categories carried out 'by way of business' (see section 2.3.3) and is any of the following:

1. deposit-taking
2. effecting a contract of insurance
3. carrying out a contract of insurance
4. dealing in investments
5. arranging deals in investments
6. providing credit facilities
7. arranging credit facilities
8. providing custody services

9. arranging the provision of custody services
10. managing investments
11. advising on investments
12. operating a collective investment fund.

Each of these activities is detailed further in section 2.6.

Some business activities are exempt from being regulated (see section 2.4).

2.3.3 Activities Carried On 'By Way of Business'

When an activity is carried on 'by way of business', it means that the person holds himself out to others engaging in that activity or solicits persons other than authorised firms to engage in this type of activity. If the person does not hold himself out as carrying out the activity on a day-to-day basis, they do not carry out the activity by way of business. In order to determine this, the frequency with which the activity is undertaken and any distinguishing characteristics are taken into account.

The QFCRA determines when an activity is regarded as being carried out by way of business.

2.3.4 Regulated Activities for Retail Customers

In order for a person to be authorised to carry on regulated activities for **retail customers**, the person needs to have put in place measures to ensure the customer's needs are adequately protected. The characteristics of retail customers are defined in the Rules by the QFCRA.

2.3.5 Activities That Are Not Regulated Activities

Activities that are not considered regulated activities in accordance with Schedule 3, Part 2 of the QFC Law are identified as:

1. shipbroking and shipping agents
2. provision of classification services, and investment grading and other grading services
3. company headquarters, management offices and treasury operations and other related functions for all kinds of business, and the administration of companies generally
4. providing professional services including but not limited to audit, accounting, tax, consulting and legal services
5. holding companies, and the provision, formation, operation and administration of trusts and similar arrangements of all kinds, and
6. provision, formation, operation and administration of companies.

2.4 Exempt Activities

Learning Objective

1.1.5 Know which activities are exempted from the Financial Services Regulations (FSR Schedule 3, Part 1)

An activity will not constitute a regulated activity for the purposes of these regulations if it falls within one or more of the following categories, which are set out in Schedule 3, Part 1 of the QFC Financial Services Regulations (FSR).

2.4.1 Group Exemption

The 'group exemption' applies to an activity with, or for, persons within the same group as the person undertaking that activity, except for insurance contracts.

2.4.2 Joint Venture Exemption

The 'joint venture exemption' applies to an activity carried on between parties that are, or propose to become, participants in a joint venture and when the activity is carried on for that joint venture. This does not apply to contracts of insurance.

A 'joint venture' is an enterprise into which two or more persons enter into a business venture for commercial purposes, which is not a regulated activity. A 'participant in a joint venture' includes a person who is within the same group as a participant in that joint venture; and the joint venture vehicle.

2.4.3 Trustee Exemption

The trustee exemption applies to activities carried out by a trustee on the instructions of the beneficiary and will not be classified as a regulatory activity if it was carried out by the beneficiary. This only applies if the trustee is not separately remunerated for carrying on that activity.

2.4.4 Professional Business Exemption

A 'professional business' is defined as the business of providing legal, actuarial and accounting services.

The 'professional business exemption' applies to the activities of arranging deals in investments, arranging credit facilities, arranging the provision of custody services and advising on investments providing that the person carrying on the activity is not separately remunerated for the work. In order to be exempted, the activity needs to be carried on in the course of a professional business that does not otherwise consist of the carrying on of a regulated activity; and is a necessary part of that profession or business provided.

2.4.5 Sale of Body Corporate Exemption

The sale of **body corporate** exemption applies to dealing in investments where it concerns the sale of shares in a body corporate from one qualifying party to another with the result that the party buying the shares holds 50% or more of the voting shares. This means that the purchasing party has acquired day-to-day control of the affairs of that body corporate.

The sale of body corporate exemption applies to advising on investments, arranging deals in investments and arranging credit facilities that are made in connection with such a sale.

To qualify for these purposes, the buyer and seller must be:

1. a body corporate, a partnership or an individual, or
2. a group of individuals each of whom is, or will become, a director or manager of the body corporate or a close relative or the trustees of any such individuals.

2.4.6 Employee Share Scheme Exemption

The 'employee share scheme exemption' applies to dealing in investments, providing custody services, arranging the provision of custody services, arranging deals in investments and advising on investments as part of an employee share scheme. In order for the exemption to apply, the activity needs to be carried out by the body corporate or a member of the same group.

2.4.7 Special Purpose Vehicle Exemption

The 'special purpose vehicle exemption' applies to entities which have the characteristics of a project finance special purpose vehicle in relation to any financing or related activities undertaken by that entity.

The QFCRA may determine the types of entity that will be considered to be a special purpose vehicle, the types of financing they may be exempt from and the circumstances under which the special purpose vehicle exemptions apply.

2.4.8 Collective Investment Funds Exemption

The 'collective investment funds exemption' applies to the activity of dealing in investments by a collective investment fund in the circumstances and to the extent so provided in rules made by the QFCRA.

2.5 Specified Products

Learning Objective

1.1.7 Know the types of investment or other products that are specified products

FSR, Schedule 3, Regulated and Permitted Activities, Part 3 Specified Product

Each one of the products detailed in this section is classified as a 'specified product'.

2.5.1 Shares

Other than a **unit in a collective investment fund**, a share or stock is the share capital of:

- any body corporate (wherever incorporated), or
- any unincorporated body constituted under the law of a country or territory outside the QFC.

2.5.2 Debt Instruments

An instrument creating or acknowledging indebtedness that is:

- a debenture
- a debenture stock
- a loan stock
- a bond
- a certificate of deposit, or
- any other instrument creating or acknowledging a present or future indebtedness that is transferable without the consent of the borrower.

However, the following are not considered to be debt instruments:

- acknowledging or creating a debt for goods or services
- a bill of exchange (including a cheque), banker's draft or letter of credit but not a bill of exchange accepted by a banker
- a banknote, a statement showing a balance on a bank account
- a lease or other disposition of property, or
- a contract of insurance.

2.5.3 Credit Facility

A credit facility is any advance, loan or other similar facility for which the person to whom it is given has (in)direct access to the funds. Any advance, loan or facility provided as part of a debt instrument (see section 2.5.2) is not a credit facility.

2.5.4 Warrant

Warrants or other instruments entitling the holder to subscribe for shares or debt instruments.

2.5.5 Securities Receipt

A securities receipt is a certificate or other instrument which confers contractual or property rights in respect of a share, a debt instrument or a warrant held by a person who is not the person on whom the rights are conferred. The transfer of securities receipts may be effected without requiring the consent of the holder of the security.

An option is not a securities receipt.

2.5.6 Unit in a Collective Investment Fund

A collective investment fund is any arrangement that enables the participants to participate in, or to receive profits or income from, the acquisition, holding, management or disposal of a property. In addition, participants may receive monies paid out of the profits of the collective investment fund, for example, in the form of dividends. A collective investment fund needs to meet the following two conditions:

- **Property** – participants do not have day-to-day control over their share of the property, and the property can take any form including money.
- **Investment** – contributions of the participants are pooled into a single investment. Pooling of funds in relation to separate parts of the property is not considered to be a single collective investment fund, unless the participants can exchange rights in one part for rights in another. The property needs to be managed as a whole.

Specific rules may be introduced outlining the particular arrangements that do not constitute a collective investment fund.

2.5.7 Options

Options confer the right, but not the obligation, to buy or sell shares, debt instruments, warrants, securities receipts, units in collective investment funds, futures, contracts for differences, currencies and metals or commodities at a future time at an agreed price.

Specific rules may be issued excluding options which are entered into for commercial purposes. This includes the setting out of the circumstances in which a contract is to be regarded as made for either commercial or investment purposes.

2.5.8 Futures

Futures contracts confer rights to sell a **commodity** or other property for delivery on a future date at a price agreed at the time the contract is made. In this context, futures are investment instruments and not entered into for commercial purposes. Rules may be issued to define the distinction between futures for commercial or investment purposes.

A contract is not a future if the seller delivers or intends to deliver the property, or the purchaser takes or intends to take delivery of the property.

2.5.9 Contract for Differences (CFDs)

Contract for differences (CFDs) confer rights under a contract for the purpose of securing a profit or avoiding a loss by reference to fluctuations in:

1. the value or price of any type of property
2. an index or other factor designated for the purpose.

A contract is not a CFD if:

1. the parties intend that the profit is to be secured or the loss avoided by one or more of the parties taking delivery of the property underpinning the contract
2. money is received on the basis that the entire principal amount will be repaid (after deduction of reasonable fees, if relevant) but that any interest or other return to be paid on the sum received will be calculated by reference to fluctuations in an index or other factor, or
3. the contract is a contract of insurance.

Rules may be issued that exclude certain CFDs which are entered into for commercial and not investment purposes, and setting out the circumstances in which a contract is to be regarded as made for either commercial or investment purposes for the purposes above.

2.5.10 Contract of Insurance

A contract of insurance or reinsurance is either a general or a long-term insurance contract.

Rules may be issued prescribing the circumstances in which a contract is a qualifying contract of insurance for the purposes of this definition.

A general insurance contract must fall into one or more of the categories outlined in the table below:

Category		Description
1	Accident	Contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the person insured: 1. sustaining injury as a result of an accident or of an accident of a specified class 2. dying as a result of an accident or of an accident of a specified class, or 3. becoming incapacitated as a consequence of disease or of disease of a specified class, including contracts relating to industrial injury and occupational disease but excluding contracts falling within long-term insurance Category 4.
2	Sickness	Contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of loss to the persons insured attributable to sickness or infirmity but excluding contracts falling within long-term insurance Category 4.

Category		Description
3	Land vehicles	Contracts of insurance against loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock.
4	Railway rolling stock	Contract of insurance against loss of or damage to railway rolling stock.
5	Aircraft	Contracts of insurance upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft.
6	Ships	Contracts of insurance upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels.
7	Goods in transit	Contracts of insurance against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.
8	Fire and natural forces	Contracts of insurance against loss of or damage to property (other than land vehicles, railway rolling stock, aircraft, ships, and goods in transit) due to fire, explosion, storm, natural forces other than storm, nuclear energy or land subsidence.
9	Damage to property	Contracts of insurance against loss of or damage to property (other than land vehicles, railway rolling stock, aircraft, ships, and goods in transit) due to hail or frost or any other event (such as theft) other fire and natural losses.
10	Motor vehicle liability	Contracts of insurance against damage arising out of or in connection with the use of motor vehicles on land, including third-party risks and carrier's liability.
11	Aircraft liability	Contracts of insurance against damage arising out of or in connection with the use of aircraft, including third-party risks and carrier's liability.
12	Liability of ships	Contracts of insurance against damage arising out of or in connection with the use of vessels on the sea or on inland water, including third-party risks and carrier's liability.
13	General liability	Contracts of insurance against risks of the persons insured incurring liabilities to third parties, the risks in question not being risks to which General Insurance Categories 10, 11 or 12 relates.
14	Credit	Contracts of insurance against risks of loss to the persons insured arising from the insolvency of debtors of theirs or from the failure (other than through insolvency) of debtors of theirs to pay their debts when due.
15	Suretyship	1. Contracts of insurance against the risks of loss to the persons insured arising from their having to perform contracts of guarantee entered into by them. 2. Fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee, where these are: a. effected or carried out by a person not carrying on the business of deposit-taking b. not effected merely incidentally to some other business carried on by the person effecting them, and c. effected in return for the payment of one or more premiums.

Category		Description
16	Miscellaneous financial loss	Contracts of insurance against any of the following risks, namely: 1. risks of loss to the persons insured attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on 2. risks of loss to the persons insured attributable to their incurring unforeseen expense (other than loss such as is covered by contracts falling within general insurance Category 18), or 3. risks which do not fall within sub-paragraph (1) or (2) and which are not of a kind such that contracts of insurance against them fall within any other general insurance category.
17	Legal expenses	Contracts of insurance against risks of loss to the persons insured attributable to their incurring legal expenses (including costs of litigation).
18	Assistance	Contracts of insurance providing either or both of the following benefits, namely: 1. assistance (whether in cash or in kind) for persons who get into difficulties while travelling, while away from home or while away from their permanent residence, or 2. assistance (whether in cash or in kind) for persons who get into difficulties otherwise than as mentioned in sub-paragraph (1) above.

A long-term insurance contract must fall into one or more of the categories outlined in the table below:

	Category	Description
1	Life and annuity	Contracts of insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within the linked long-term category defined below.
2	Marriage and birth	Contracts of insurance to provide a sum on marriage, or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.
3	Linked long-term	Contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by references to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

	Category	Description
4	Permanent health	Contracts of insurance providing specified benefits against risks of persons becoming incapacitated as a consequence of sustaining injury as a result of an accident, or of an accident of a specified class or of sickness or infirmity, being contracts that: 1. are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the persons concerned, or without limit of time, and 2. either are not expressed to be terminable by the **insurer**, or are expressed to be so terminable only in special circumstances mentioned in the contract.
5	Tontines	Annuity shared by subscribers to a loan or common fund, the shares increasing as subscribers die until the last survivor enjoys the whole income. .
6	Capital redemption contracts	Capital redemption contracts, where effected or carried out by a person who does not carry on a banking business, and otherwise carries on the specified activity of effecting contracts of insurance or carrying out contracts of insurance.
7	Pension fund management	Consisting of: 1. pension fund management contracts, and 2. pension fund management contracts which are combined with contracts of insurance covering either conservation of capital or payment of a minimum interest, where effected or carried out by a person who does not carry on a banking business, and otherwise carries on the specified activity of effecting contracts of insurance or carrying out contracts of insurance.

2.5.11 Deposit

A deposit is a contract for the placement of a sum of money on the condition that it will be repaid, with or without interest or a premium. Deposits can be repaid on demand or at a time or in circumstances agreed between the parties. In this context, the person placing the funds is the payee and the party receiving the funds is the recipient.

In the event money is paid under the following circumstances, it is not considered to be a deposit:

1. advance or part-payment under a contract for the sale, hire or other provision of property or services, and which is repayable only in the event that the property or services are not in fact sold, hired, or otherwise provided
2. security for the performance of a contract or in respect of a loss which may result from the non-performance of a contract, or
3. security for the delivery or return of property, whether in a particular state of repair or otherwise.

Rights under a contract will not be a deposit for the purposes of the first paragraph if the person who pays the money is:

1. carrying on a business consisting wholly or significantly of lending money
2. an authorised firm which has permission to carry on deposit-taking or to effect or carry out contracts of insurance
3. a member of the same group as the payee, or
4. a close relative, director, manager or controller of the payee.

In addition, rights under a contract will also not be a deposit if the payee is:

1. a lawyer acting in the course of their profession duly licensed by the QFC Authority
2. the issuer of a debt instrument
3. the recipient of a credit facility, or
4. an authorised firm (other than one whose authorisation permits it to carry on deposit-taking) in the course of carrying one or more of the following activities:
    a. dealing in investments
    b. arranging deals in investments
    c. managing investments
    d. operating a collective investment fund, or
    e. provision of custody services.

2.5.12 Rights in Investments

Any right or interest in any investment in specified products is defined in section 2.5.

2.6 Specified Activities

The following activities are listed as regulated activities, under the heading Specified Activities in Schedule 3, Part 2 of the QFC Financial Services Regulations.

2.6.1 Deposit-Taking

The activity of accepting money received as a deposit if:

1. that money is lent to others, or
2. any other activity of the person accepting the deposit is financed, at least to a material extent, out of the capital of, or interest on, that money.

2.6.2 Effecting a Contract of Insurance

The activity of effecting a contract of insurance as principal.

2.6.3 Carrying out a Contract of Insurance

The activity of carrying out a contract of insurance as principal.

2.6.4 Dealing in Investments

Dealing in investments is defined as:

1. the activity of buying, selling, subscribing for or underwriting investments or agreeing to do so, either as a principal or as an agent, or
2. the activity of buying, selling, underwriting or entering into a contract of insurance as agent or agreeing to do so.

Exclusions to Dealing in Investments

The following activities are not considered to be dealing in investments:

1. the issue by a body corporate of its own shares or debentures or of its own share warrants or debenture warrants, and
2. the acceptance by a person of an instrument creating or acknowledging indebtedness in respect of any loan, credit, guarantee or other similar financial accommodation or assurance which that person has made, granted or provided.

2.6.5 Arranging Deals in Investments

Arranging deals in investments consists of making or agreeing to make arrangements with a view to another person buying, selling, subscribing for or underwriting an investment or contract of insurance.

Exclusions to Arranging Deals in Investments

The following are excluded from the activity of arranging deals in investments:

1. a transaction, contract or facility in which one person is either the principal or an agent for another person
2. the issue by a body corporate of its own shares, debentures, warrants in its own shares or debenture warrants
3. the acceptance by a person of an instrument creating or acknowledging indebtedness in respect of any loan, credit, guarantee or other similar financial accommodation or assurance which that person has made, granted or provided, and
4. the provision of finance to enable a person to buy, sell, subscribe for or underwrite investments.

A person does not carry on the specified activity of arranging deals in investments merely by providing the means by which one party to a transaction is able to communicate with other parties to such a transaction.

2.6.6 Providing Credit Facilities

The activity of providing a credit facility to another person.

Exclusions to Providing Credit Facilities

A person does not carry on the specified activity of providing credit facilities if the credit facility is to be provided by a regulated firm in the course of carrying on one or more of the following activities:

1. dealing in investments
2. arranging deals in investments
3. managing investments
4. operating a collective investment fund, or
5. providing custody services.

2.6.7 Arranging Credit Facilities

The activity of arranging for the provision of a credit facility by one or more persons.

Exclusions to Arranging Credit Facilities

A person will not carry on the specified activity of arranging credit facilities if:

1. they are to be a party to the provision of credit facilities in question, or
2. they merely provide the means by which a person providing a credit facility communicates with the person to whom the credit facility is, or is to be, provided.

2.6.8 Providing Custody Services

Providing custody services is the activity of both safeguarding and administering assets belonging to another person which consist of or include investments or long-term insurance contracts or agreeing to do so.

For these purposes, the following activities do not constitute administering assets:

- providing information as to the number of units or the value of any assets safeguarded
- converting currency, or
- transmitting documents.

Exclusions to Providing Custody Services

A person does not carry on the specified activity of providing custody services if they do so under a delegation arrangement with an authorised firm which has permission to carry on the specified activity of providing custody services, providing that the authorised firm accepts a responsibility for the assets which is no less onerous than it would have been if it were doing the safeguarding and administration itself.

2.6.9 Arranging the Provision of Custody Services

The activity of arranging for one or more persons to provide custody services.

Exclusions to Arranging the Provision of Custody Services

A person will not carry on the specified activity of arranging the provision of custody if:

1. they are to provide custody services themselves, or
2. they merely provide the means by which the provider of custody communicates with the person to whom custody services are, or are to be, provided.

2.6.10 Managing Investments

Managing investments is defined as managing, or agreeing to manage, assets belonging to another person when:

1. the assets consist of, or include investments or long-term insurance contracts, and
2. the arrangements for their management are such that the assets may consist of or include investments at the discretion of the person managing or offering or agreeing to manage them.

2.6.11 Advising on Investments

Advising on investments constitutes giving, or agreeing to give, advice to a person on the merits of:

1. buying, selling, subscribing for or underwriting a particular investment or contract of insurance, or
2. exercising any right conferred by an investment to acquire, dispose of, underwrite or convert an investment or contract of insurance.

Exclusions to Advising on Investments

The giving of advice in a newspaper, journal, magazine or other periodical publication is excluded from the specified activity of advising on investments providing that the principal purpose of the publication or service taken as a whole (including any advertisements or other promotional material contained in it) is not advising on investments or leading or enabling a person to deal in investments, effect contracts of insurance or carry out contracts of insurance.

2.6.12 Operating a Collective Investment Fund

Operating a collective investment fund is the activity of establishing, operating or winding up a collective investment fund.

For these purposes, a person operates a collective investment fund if they:

- act in the capacity of trustee of a collective investment fund that takes the form of a trust
- act as transfer or registration agent for the collective investment fund, or provide valuation or accounting services for the collective investment fund, or
- otherwise have responsibility for the day-to-day administration of those parts of the business of the collective investment fund that do not constitute managing investments.

3. QFCRA Powers of Investigation

Learning Objective

1.2.1 Know the QFCRA's powers with regard to investigations

Article 48 – Powers to Obtain Document and Information; Article 49 – Reports; Article 50 – Appointment of Investigators; Article 51 – Investigation of Companies, LLPs and Branches; Article 52 – Investigations: Duties and Powers; Article 53 – Admissibility; Article 54 – The Role of the Tribunal in Investigations; Article 55 – Self-Incrimination; Article 56 – Protected Items; Article 57 – Obstruction of the Regulatory Authority

3.1 Supervision and Investigations

3.1.1 Powers to Obtain Documents and Information

The QFC Regulatory Tribunal may order the QFCRA to obtain documents and information from a person outside the QFC. The QFCRA may request the appropriate **overseas regulator** to assist in exercising the power in respect of any such person.

The QFCRA may require specific information or specific documents or information or documents of a specified description to be produced within a reasonable time.

The QFCRA may enter the premises of any person in the QFC at any time for the purpose of inspecting and copying information or documents stored in any form on such premises.

The person must give the QFCRA all such assistance as it may reasonably require.

3.1.2 Reports

The QFCRA may request reports by a nominated person on any matter about which the Regulatory Authority has required or could require the provision of information or production of documents described in section 3.1.1 above. The reports need to be requested by notice in writing given to a person, and the form in which the report is to be provided may be specified in the notice.

The nominated person appointed to produce the report must be nominated or approved by the QFCRA.

If a report has been requested, the person to whom a notice has been given must give the appointed person who will generate the report all reasonably required assistance. This obligation is enforceable on application by the QFCRA to the Tribunal.

The costs of providing such a report shall be borne by the person to whom a notice has been given.

3.1.3 Appointment of Investigators

If it has a good reason for doing so, the QFCRA may appoint one or more competent investigators to conduct investigations into a suspected contravention of a relevant requirement and report accordingly. Competent investigators may, but do not have to, be employees of the QFCRA.

The QFCRA must give written notice of the appointment of an investigator to all persons subject to investigation, unless it believes that giving such notice would risk frustrating the investigation in a material way. Any such notice must specify the purpose of, and reason for the investigation.

A person under investigation is entitled to legal representation during the course of an investigation.

Unless the person has been found to have contravened the relevant requirement, the QFCRA shall pay the costs and expenses of an investigation. The QFCRA or, if appropriate, the Appeals Body or Tribunal, may order that the person must pay the QFCRA in respect of the whole or any part of the costs and expenses of the investigation.

The QFCRA may also appoint investigators in relation to companies incorporated or branches registered under the Companies Regulation as well as limited liability partnerships (LLPs) incorporated under the LLP regulations. If necessary for the purpose of the investigation, an investigator appointed to investigate the affairs of a company, branch or LLP may also investigate and report on the affairs of another entity which is (or has been) part of the same group of companies as the entity under investigation.

The QFCRA can only appoint investigators for companies, branches and LLPs under the following circumstances:

a. On the written request of the company or a **member** of the company holding at least 10% of the nominal value of the issued share capital.
b. The QFCRA considers there are circumstances suggesting that the affairs of the entity are (or have been) conducted:
    - with intent to defraud its creditors or any other person
    - for a fraudulent or unlawful purpose, or
    - in a manner unfairly prejudicial to some of its members.
c. Actual or proposed acts or omissions by or on behalf of the entity are or could be prejudicial to some part of its members.
d. Any person concerned with the formation or management of the entity or its affairs has been guilty of fraud, misfeasance or other misconduct toward the entity or its members in relation to the formation or management.
e. Some, or all of the members of the entity have not been given all the information they are entitled to, or which they might reasonably expect with respect to the affairs of the entity.
f. The company has been carrying on in, or from, the QFC a business which it is not permitted to carry on in the QFC.

3.1.4 Investigation Duties and Powers

The QFCRA, or an investigator, may require a person to:

- attend a meeting
- produce specific documents or documents of a specific description, and/or
- provide any other information or assistance.

Any such request needs to be in writing, and may specify a time and place, as well as a reasonable time period to produce the requested information or documents.

If the QFCRA has reasonable grounds to believe that an **approved individual** may have engaged in conduct that may be grounds for withdrawal or variation of their status, the QFCRA may suspend or vary the individual's approved status for the duration of the investigation insofar as the investigation relates to the individual. However, the QFCRA must give written notice of this to both the approved individual and the relevant authorised firm.

In the event the investigation is related to a person, the QFCRA may apply to the Tribunal for an order to preserve all or any of the assets, books and records of the person and that they may not be moved or otherwise dealt with.

Unless an investigation is discontinued, the investigator must provide a written report.

3.1.5 Admissibility of Evidence

Any statement made, information given, or documents produced in compliance with a request by an investigator will be admissible as evidence in any proceedings. Any such information must also comply with requirements governing the admissibility of evidence in the relevant proceedings.

3.1.6 The Role of the Tribunal

The QFCRA may apply to the Tribunal for assistance in the enforcement of their powers. The Tribunal shall provide such assistance as it considers appropriate given the circumstances. Assistance from the Tribunal includes the imposition of financial penalties for contravening the regulations; issuance of search orders; and issuance of orders for the seizure of documents and/or other information.

3.1.7 Self-Incrimination, Protected Items and Obstruction

The QFCRA and the investigator may not require a person to produce, disclose or permit the inspection of a protected item. A communication or item is not a protected item if it is held with the intent to further a criminal purpose.

Unless the request is related to protected items, refusal or failure to produce, disclose, or permit the inspection of any information or to answer any questions on the grounds that the information, document or answer may incriminate the person or make them liable to a financial penalty.

A person must not do, or fail to do, anything that obstructs, or is intended to obstruct, the QFCRA in the exercise of its functions. This includes, but is not restricted to:

a. destruction of documents
b. failure to give or produce information or documents
c. failure to attend and answer questions
d. giving false or misleading information
e. failure to give assistance in relation to an investigation.

3.2 Discipline and Enforcement

Learning Objective

1.2.2 Know the QFCRA's powers with regard to discipline and enforcement

Article 58 – Public Censure; Article 59 – Financial Penalties, Financial Services Regulation; Article 60 – Appointment of Managers; Article 61 – Undertakings; Article 62 – Prohibitions and Restrictions; Article 63 – Injunctions; Article 64 – Restitution Orders; Article 65 – Civil Proceedings; Article 66 – Appeals; Article 67 – Power of Regulatory Authority to Intervene in any Proceedings; Article 68 – Effect of Other Provisions; Article 69 – Procedural Irregularities

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Provisions included in this part of the regulations are additional to, and do not limit, any other provisions of the regulations or any provisions of other regulations or rules.

3.2.1 Public Censure

If the QFCRA considers that a person has contravened a relevant requirement it may publish a statement to that effect. For authorised firms and approved individuals, this applies irrespective of whether the person still is an authorised firm or approved individual, or whether they have stopped being an authorised firm or approved individual.

3.2.2 Financial Penalties

If the QFCRA considers that a person has contravened a relevant requirement, it may impose a financial penalty of an amount it considers appropriate.

The QFCRA may not impose a financial penalty in respect of any matter for which the person has already been sanctioned by the Tribunal.

Penalties are payable to the QFCRA unless it determines otherwise. Any penalty that is not paid within the period stipulated by the QFCRA may, on application to the Tribunal, be recovered by the QFCRA as a debt.

The QFCRA may publish a statement describing the contravention and the amount of any financial penalty imposed.

3.2.3 Appointment of Managers

The QFCRA may require the appointment of one or more individuals to act as managers of the business. Any such request needs to be in writing and may include specific terms. These individuals must be noted or approved by the QFCRA.

3.2.4 Undertakings

The QFCRA may accept a legally enforceable undertaking from any person which includes undertakings to do, or not do, something. As long as consent is obtained from the QFCRA, these undertakings may be withdrawn or varied at any time by the person.

In the event the QFCRA is satisfied, the person who gave the undertaking has been in breach of any of its terms, it may apply to the Tribunal for an order to direct the person to comply with the relevant terms of the undertaking or any other order the Tribunal considers appropriate.

3.2.5 Prohibitions and Restrictions

The QFCRA may place the following prohibitions and restrictions on authorised firms or approved individuals:

1. prohibition to enter into certain specified (types of) transactions
2. prohibition to solicit business from certain specified or types of person
3. restriction of a business to include or exclude carrying on business in a specified manner
4. requirement for them to carry on business or conduct themselves in a specified manner.

In addition, the QFCRA may prohibit a person from performing a specified function, any function falling within a specified description, or any function at all.

All notifications by the QFCRA in this respect have to be given in writing.

3.2.6 Injunctions and Restitution Orders

Three different injunctions are available to the QFCRA:

1. An order restraining a contravention of a relevant requirement. The QFCRA can apply to the Tribunal for this injunction if it is satisfied a person will contravene a relevant requirement, or has contravened a relevant requirement and there is reasonable likelihood the contravention will continue or be repeated.
2. An order requiring steps to be taken to remedy the contravention. The QFCRA may apply to the Tribunal for this injunction if they are satisfied a person has contravened a relevant requirement and there are steps which could be taken to remedy the contravention.

3. An order restraining a person from disposing of, or otherwise dealing with, any of their assets. The QFCRA may apply to the Tribunal for this injunction if it is satisfied a person may have contravened a relevant requirement, or has been knowingly concerned in the contravention of a relevant requirement. In the event that profits have accrued to the person as a result of the contravention, or one or more persons have suffered losses or have otherwise been adversely affected as a result, the QFCRA may also apply for an order requiring the person to (re)pay an amount. In establishing the amount to be paid, the QFCRA will take into consideration the profits accrued and/or the extent of losses, or other adverse effects suffered.

The QFCRA may introduce rules to allow (specific categories of) persons to apply to the Tribunal for a restitution order, in the event they have suffered losses or damages as a result of the contravention of a relevant requirement.

3.2.7 Appeals

In the event the QFCRA exercises any of its disciplinary powers, the person concerned may refer the matter to the Appeal Body within 28 days of the receipt of a decision notice or a longer period as advised in the notice.

3.2.8 Intervention in any Proceedings

Where deemed appropriate to meet the regulatory objectives, the QFCRA may intervene as a party in any proceedings before the Tribunal. In these cases, the QFCRA shall have all rights, duties, and liabilities of such party.

3.2.9 Procedural Irregularities

Procedural irregularities can occur in relation to references to defects, irregularities, or deficiency of notice or time in the procedure. Whereas the procedure includes the making of a decision, the conduct of a hearing, the giving of a notice and any proceedings (legal or otherwise).

In the event a procedural irregularity occurs, this does not automatically invalidate the procedure. Procedures can only be declared invalid by the Tribunal.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. List the 15 permitted activities itemised in the QFC Law.
   Answer Reference: Section 1.1

2. Which are the two sub-classifications within permitted activities?
   Answer Reference: Section 1.1

3. State the five objectives of the QFC Authority.
   Answer Reference: Section 2.1

4. List at least six of the objectives of the QFCRA.
   Answer Reference: Section 2.2

5. What is the definition of a regulated activity?
   Answer Reference: Sections 2.3.2 & 2.3.3

6. List the eight activities that do not constitute a regulated activity.
   Answer Reference: Section 2.4

7. What are two activities excluded from the specified activity of dealing in investments?
   Answer Reference: Section 2.6.4

8. When does an investigator not have to provide a written report of the investigation?
   Answer Reference: Section 3.1.4

9. List the prohibitions and restrictions on authorised firms and approved individuals.
   Answer Reference: Section 3.2.5

10. List the three injunctions available to the QFCRA.
    Answer Reference: Section 3.2.6

11. Under what circumstances can a procedural irregularity occur?
    Answer Reference: Section 3.2.9

Chapter Two

Companies, Partnerships and Trusts

1. Companies, Partnerships and Trusts (Companies Regulations 2005) 29

2. Protected Cell Companies (Companies Regulations 2005) 33

3. Partnerships (Partnership Regulations 2007) 35

4. Trusts and Trustees (Trust Regulations 2007) 38

This syllabus area will provide approximately 7 of the 75 examination questions

1. Companies, Partnerships and Trusts (Companies Regulations 2005)

1.1 Limited Liability Companies

Learning Objective

2.1.1 Understand the legal capacity of limited liability companies

Article 15 – Corporate Capacity, Companies Regulations

A limited liability company (LLC) is a form of legal entity that may be incorporated in the Qatar Financial Centre (QFC). An LLC is a company which is formed by being incorporated under the Companies Regulations, and has separate 'legal capacity' from its members. The liability of the members is limited to paying to the LLC any amount unpaid on the shares held by them.

An LLC has the position (the capacity), rights and privileges of a natural person and may enter into contracts, sue and be sued, and own assets of all types.

A person who, in good faith, is a party to any transaction with an LLC, its directors, or anyone else so authorised, is free of any limitation under the LLC's articles of association.

A contract may be made, varied or discharged on behalf of an LLC by any person acting under its authority, express or implied.

A document is **executed** by an LLC if signed by two directors, or one director and the secretary of an LLC, and expressed as to be executed by the LLC.

1.2 Regulations Relating to Share Issues

Learning Objective

2.1.2 Know the regulations relating to the following aspects of share issues

Article 21 – Allotment of Shares; Article 24 – Transfer of Shares; Article 33 – Prohibition of Financial Assistance, Companies Regulations

1.2.1 Allotment of Shares

All unissued shares in the capital of the company of an LLC are at the disposal of the directors of an LLC, unless otherwise determined in the articles of association.

Subject to any rights previously granted to the holders of existing shares, the directors may offer, allot, grant options over or dispose of these shares to anyone as they deem fit.

1.2.2 Transfer of Shares

A member of an LLC is allowed to transfer their shares in any way as is permitted by the LLC's articles of association.

Notwithstanding the provisions of its articles of association, shares may only be registered or transferred once a written instrument of transfer has been executed and all outstanding sums in relation to the transfer have been paid to the LLC.

For the purposes of trading, an LLC (Public) may allow the transfer of shares to be made electronically, or in any other manner permitted by the Qatar Financial Markets Authority (QFMA), Qatar Stock Exchange (QSE), the relevant exchange or regulator. As long as the transfer is registered by the LLC (Public), it shall be sufficient to transfer title in the shares.

The only occasion in which this does not apply is when a transfer of shares is undertaken in accordance with rules made by the QFC Authority. The LLC can at all times register any person as a member to whom the right to any shares of the LLC has been transmitted by operation of law.

Shares of deceased members of the LLC may be transferred by their representatives, who do not need to be members of the LLC.

If an LLC refuses to register a transfer of shares, the LLC must, within 21 days after the date on which the transfer was delivered to the LLC, send a notice of the refusal to both parties.

1.2.3 Financial Assistance

'Financial assistance' consists of financial assistance of any kind and includes loans, gifts, issuance of debentures, giving security over assets or giving a guarantee or indemnity.

An LLC is not allowed to provide (in)direct financial assistance to anyone to acquire its shares or shares in its holding company unless this does not materially prejudice the LLC's ability to discharge its liabilities. This means that the LLC cannot provide funds for share purchase if it affects the company's ability to repay its own borrowings, for example:

- the providing of the financial assistance is approved by resolution of the members holding not less than 90% of the nominal value of the shares which give a right to attend and vote at any meeting of members, or
- the LLC's ordinary business includes providing finance, and financial assistance is given in the ordinary course of that business and on ordinary commercial terms.

Dividend payments, distributions made as part of winding up the LLC, allocation of bonus shares, reduction of capital, or a redemption or purchase of shares are not considered to be financial assistance.

1.3 Regulations Applying to Directors and Secretaries

Learning Objective

2.1.3 Know the regulations that apply to the directors and secretary in the following areas:

Article 52 (1–2) – Appointment of Directors; Article 56 (1–4) – Directors' Interests; Article 60 (1–2) – Appointment of Secretary

1.3.1 Appointment of Directors

An LLC must have at least one director who needs to meet the following criteria:

- if an individual, cannot be under the age of 18 years
- must not be disqualified from being a director in the QFC or anywhere else
- must not be an undischarged bankrupt in any country
- must not be a body corporate, unless,
  - the body corporate is an authorised firm, and
  - the LLC is a collective investment fund.

1.3.2 Appointment of Secretary

An LLC must, at all times, have an appropriately qualified secretary.

The first secretary of an LLC is the person named in the incorporation document. Any secretary after that will be appointed by the directors. The directors can appoint one of their own number, except that a sole director cannot also be a secretary.

A secretary can be removed by the directors of an LLC or may resign by the submission of a letter of resignation.

1.3.3 Directors' Interests

Directors need to disclose the extent of their (in)direct interests in a transaction the LLC has entered into, or is proposing to enter into, in order to avoid any real or potential conflicts of interest with those of the LLC for which it acts.

These disclosures must be made as soon as practicable after the director becomes aware of potential conflict, but no later than ten days after the director becomes aware of the circumstances that give rise to the disclosure.

Solely holding less than 10% of the shares in a body corporate listed on any stock exchange is not considered to bring about disclosure under this rule.

A notice in writing given to the LLC by a director specifying their interest in a transaction with a specified person and the reasons why they are to be regarded as having an interest is sufficient disclosure of their interest in any such transaction entered into after the notice is given.

1.4 Company Meetings

Learning Objective

2.1.4 Know the following requirements regarding company meetings:

Article 63 – Frequency of General Meetings; Article 65 (1–3) – Requisition of General Meetings

1.4.1 Frequency of General Meetings

An LLC is required to hold a meeting of all members at least once in every calendar year. This meeting is referred to as the annual general meeting (AGM). The first AGM is exempt from this requirement, and needs to be held within 18 months of its incorporation. This does not have to be in the calendar year of its incorporation or the following calendar year.

The directors may, whenever they think fit, convene a general meeting of the members of an LLC, or the holders of any class of shares. Any meetings other than the AGM are known as 'special general meetings'.

1.4.2 Requisition of General Meetings

Special general meetings or a meeting of any class of members of the LLC must be convened on request of any of its members holding the requisite shares. The meeting must be held as soon as practicable, but not later than three months after the date of the request.

'Requisite shares' means 10% or more of the nominal value of the shares carrying the right to vote.

The request must state the objectives of the meeting and must be signed by the members requesting the meeting. It must be deposited at the registered office of the LLC marked for the attention of the directors, and may consist of several documents.

2. Protected Cell Companies (Companies Regulations 2005)

Learning Objective

2.2.1 Understand the structure of protected cell companies (PCCs)

Article 93 – Incorporation as a Legal Entity; Article 94 – Creation of Cells; Article 95 (1–5) – Cellular and Non-Cellular Assets

2.1 Protected Cell Companies (PCCs)

2.1.1 Incorporation as a Legal Entity

A protected cell company (PCC) is a legal entity that may be incorporated in the QFC. A PCC is a company which segregates the assets and liabilities of different classes of shares from each other and from the general assets of the PCC. A company may either be incorporated as, or converted to, a PCC. Conversion is only possible if the company is authorised to do so by its articles of association and the conversion is approved by the Companies Registration Office (CRO).

A company, in these circumstances, is defined as, '*a company incorporated in the QFC under these regulations or any other regulations*'.

A PCC may create separate cells to the company, for the purpose of segregating and protecting cellular assets, and the assets of the PCC (see section 2.1.3 below).

However, under all circumstances, a PCC is a single legal person, and the creation by a PCC of a cell does not create, in respect of that cell, a legal person separate from the PCC.

A PCC is bound by the same regulations as an LLC, except when specific amendments to those rules are made.

2.1.2 Creation of Cells

A PCC can create one or more cells for the purpose of segregating and protecting cellular assets.

2.1.3 Cellular and Non-Cellular Assets

The assets of a PCC are either cellular assets or non-cellular assets.

Cellular assets comprise the assets of the PCC being segregated and protected by a cell, and non-cellular assets are any other assets belonging to the PCC. Non-cellular assets are not segregated or protected by a cell.

The directors of a PCC are responsible for keeping cellular assets separate and separately identifiable from non-cellular assets and from cellular assets attributable to other cells.

The assets attributable to a cell of a PCC comprise assets represented by the proceeds of cell share capital and reserves attributable to the cell and all other assets attributable to the cell.

2.2 PCC Creditors

Learning Objective

2.2.2 Understand the position of a PCC's creditors

Article 96 (1–3) – Position of Creditors; Article 97 – Recourse to Cellular Assets by Creditors, Companies Regulations; Article 103 (1–3) – Liabilities of Cellular Assets

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In order to protect the cell's assets, the position of the PCC's creditors is implied in every transaction. Except for when it is specifically excluded in writing, it is implied that no party shall use assets that belong to any cell of the PCC to satisfy a liability that is not related to the cell.

The rights of creditors of a PCC correspond with the liabilities of cellular assets (see section 2.2.1 below), and they have no other rights than those identified in this section (2.2) of the workbook.

Assets of a PCC held in its cells should not be available to transfer from one cell to settle the debts of another. The assets of a PCC are protected by the cellular structure of a PCC, and in the event there is an attempt to use assets belonging to one cell to try to settle a liability with a creditor which is not a creditor of that cell, the party trying to use those assets must make payment to the PCC, to the value of the benefit derived from the assets being used.

Even if someone does succeed in using the assets of one cell to settle the liability of another, the assets used will only be held by that party 'in trust'.

Cellular assets attributable to a cell of a PCC are only available to the creditors of the particular cell. Therefore, the creditors have recourse to these assets. In addition, the cell assets shall, at all times, be protected from creditors of the PCC who are not creditors of the cell and, thus, have no recourse to the assets. A PCC is allowed to create separate cells to the company – for the purpose of segregating and protecting cellular assets, the assets of the PCC.

2.2.1 Liabilities of Cellular Assets

In the event a liability is attributable to a particular cell of a PCC, it shall first be satisfied by the cellular assets attributable to the cell and only once they are exhausted, by the PCC's non-cellular assets (if necessary). Cellular assets that are not attributable to the relevant cell may not be used to satisfy the liability.

Losses or damage attributable to a particular cell of a PCC which are caused by fraud are the liability of the PCC's non-cellular assets without prejudice to any liability of any person other than the PCC.

3. Partnerships (Partnership Regulations 2007)

Learning Objective

2.3.1 Understand what constitutes a partnership and the different types

Article 7 (1) – Meaning of Partnership Agreement and Partnership; Article 8 – Carrying on a Business; Article 9 – General and Limited Partnerships; Article 21 – Acts of the Partners

3.1 Carrying on a Business

A partnership agreement is defined as an agreement between two or more persons for carrying on a business together with the object of making a profit.

Persons who have entered into partnership with one another are called collectively a 'partnership' and a 'business' includes every trade, profession and occupation.

A person does not carry on a business with another merely because they receive a payment contingent on, or varying with, the profits of a business, or act as an agent whose remuneration is a share of the profits of the business. In addition, a person does not carry on a business merely because they receive a:

- debt or other liquidated amount out of the accruing profits of a business
- share of the profit as the beneficiary of the estate of a person who was a partner and has died
- share of the profit of a business as payment for a loan to a person engaged in that business, or
- share of the profit of the business in return for the sale of the goodwill of that business.

Simply sharing an interest in a property equally does not constitute carrying on a business with another simply because they share an interest in property, regardless of whether or not they share profits made by the use of the property.

Finally, a person does not carry on a business with another merely because they share gross profits.

3.2 General and Limited Partnerships

A 'limited partnership' is a partnership comprising at least one general partner and at least one limited partner.

A 'general partnership' is a partnership which is not a limited partnership.

Unless specified otherwise, the regulations relating to partnerships apply to both limited and general partnerships.

3.3 Partnerships Bound by the Partners' Acts

A partnership is bound by anything a partner is expected to do for carrying on business in the usual way.

However, the partnership is not bound by the acts of a partner if they act outside of their authority and the party the partner is dealing with knows that the partner acts outside of their authority, or does not believe the person is a partner in the partnership.

3.4 Limited Partners

Learning Objective

2.3.2 Understand the difference between limited, unlimited and joint and several liability

Article 24 (1) – Unlimited Liability of Partners; Article 27 (1) – Liability of Former Partner for Obligations Incurred while a Partner; Article 37 (1–5) – Limited and General Partners; Article 38 – Restricted Role of Limited Partner; Article 39 – Permitted Activities for Limited Partners; Article 40 – Limited Liability of Limited Partner; Article 41 – Limited Partner Who Has Unlimited Liability

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3.4.1 Unlimited Liability of Partners

Each of the partners in a general partnership has unlimited liability and is personally liable, jointly and individually, with the other partners for the whole amount of any partnership obligation incurred while they are a partner. When someone ceases to be a partner, they remain personally liable for partnership obligations incurred while they were a partner.

3.4.2 Limited Liability of Limited Partners

A limited partner is not personally liable for any partnership obligation incurred while they are a limited partner, unless they interfere in the management of the partnership business (see Section 3.4.4). While a person remains a limited partner, they are not entitled to draw out, or receive back, the whole or part of the capital they have contributed to the partnership. However, if so, they will be personally liable for any partnership obligation incurred while they are a limited partner. Their total personal liability cannot exceed the amount of capital withdrawn or received back.

3.4.3 Restricted Role and Permitted Activities of Limited Partners

A limited partner should generally not take part in the management of the partnership business or affairs, with the exception of a number of decision-making activities that are related to the partnership itself, such as decisions related to:

a. variation of the partnership agreement
b. approval, or veto, of a class of investment by the limited partnership
c. change to the general nature of the partnership business
d. disposal of the partnership business or acquisitions
e. changes in partners (appointments and dismissals)

f. ending of the partnership
g. winding up of the partnership
h. enforcing the right under the partnership agreement (unless those rights are to carry out management functions)
i. approving the accounts of the limited partnership
j. being engaged under a contract by the limited partnership or by a general partner in the limited partnership (unless the contract is to carry out management functions)
k. acting in their capacity as a director or employee of, or a shareholder in, a corporate general partnership
l. actual or potential conflict of interest between a limited partner (or limited partners) and a general partner (or general partners)
m. discussing the prospects of the partnership business
n. consulting or advising a general partner, or the general partners, about the activities of the limited partnership or about its accounts (including doing so as a member of an advisory committee of the limited partnership).

A limited partner has no right to dissolve a limited partnership by notice.

Only a general partner, or the general partners, may decide that the limited partnership will not break up upon the death or (if not an individual) dissolution of a partner.

3.4.4 Limited Partner who has Unlimited Liability

If a limited partner becomes involved in the management of the business affairs partnership against the rules, they will personally be liable for any obligation incurred as a result of the non-compliance as well as any other partnership obligation incurred during the period.

3.5 The Structure of a Limited Liability Partnership (LLP)

Learning Objective

2.3.3 Understand the structure of a limited liability partnership (LLP) (Limited Liability Partnership Regulations 2005)

Article 6 – Limited Liability Partnerships; Article 7 (1–4) – Corporate Capacity

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A limited liability partnership (LLP) is a body corporate with separate legal capacity from that of its members, with the capacity, rights and privileges of a natural person. An LLP may enter into contracts, sue and be sued and own assets of all types. LLPs may be incorporated in the QFC.

Each member of an LLP is liable to contribute to its assets in the event the LLP is wound up to the extent that has been agreed between the partners. In addition, each member needs to contribute in favour of a person who, in good faith, is a party to a transaction with the LLP. The power of the members of an LLP to bind the LPP, or authorise others to do so, is free of any limitation under the LLP agreement.

4. Trusts and Trustees (Trust Regulations 2007)

Learning Objective

2.4.1 Understand the following general principles that apply to trusts:

Article 7 (2) – Where the Terms of a Trust Do Not Prevail; Article 16 – Creation of a Trust; Article 16A – Registration of a Trust; Article 17 – Requirements for Creation; Article 18 – Trust Purposes; Article 36 (1–2) – Acceptance of a Trusteeship; Articles 9 (1 & 5) and 15 (1) – Governing Law and Jurisdiction

A 'trust' is a right, enforceable solely in equity, to the beneficial enjoyment of property to which another person holds the legal title.

The terms of a trust generally prevail over any provision of the QFC Regulations, but there are a number of exceptions, such as the requirement for creating a trust, (including, but not restricted to, registration), which are specified by the QFC. In addition, the QFC has rules in place that regulate the following:

- a trustee needs to act in good faith, in accordance with the purposes of the trust and consistent with its fiduciary duties
- a trust and its terms need to be for the benefit of its beneficiaries. In addition, the purpose of the trust has to be lawful, not contrary to public policy, and possible to achieve
- the QFC Court has the power to give directions to a trustee or any other person, and modify or terminate a trust in accordance with the regulations
- the effect of a protective trust
- the QFC Court has the power to adjust a trustee's compensation specified in the terms of the trust when it is unreasonably low or high
- the effect of an exculpatory term which are defined as provisions that relieve the trustee from liability for certain acts that could otherwise be considered a breach of duties or a trustee
- the rights of a person other than a trustee or beneficiary
- the periods of limitation for commencing a judicial proceeding
- the power of the QFC Court to take such action and exercise such jurisdiction as may be necessary in the interests of justice, and
- the powers of the QFC Court in relation to trust.

4.1 Creation of a Trust

A trust is a legally binding relationship created by a settlor. Under the terms of this relationship, the trust property is held in the name of the trustee (or another person on behalf of the trustee). The trustee exercises duties and powers in accordance with the governing law of the trust and the terms of the trust for either, or both, of the following:

- for the benefit of a beneficiary, whether or not yet ascertained or in existence, or
- any valid purpose that is not for the sole benefit of the trustee.

Trusts have to be created in writing (for example by will or codicil) in one of the following ways:

1. transfer of property to a trustee by a settlor either during their lifetime or upon their death by will or other disposition, or
2. transfer of property from one trust to another, or
3. declaration by the beneficial owner that the legal owner holds the property as a trustee, or
4. exercise of a power of appointment in favour of a trustee.

The trust property must constitute a separate fund and cannot be part of the trustee's own estate. In addition, the title of the trust property is held in the name of the trustee or another person on behalf of the trustee. The trustee has the power and duty to manage, employ, or dispose of the trust property in accordance with the terms of the trust and their duties under applicable laws. A trustee may sue, and can be sued, in their capacity as trustee and may appear before any court or person in an official capacity.

The following requirements for the creation of a trust have to be met:

1. the settlor has the capacity to create the trust, and has indicated an intention to create it
2. the trust has a definite beneficiary, is a charitable trust, or is a non-charitable purpose trust
3. the trustee holds the property or has it vested in him for the benefit of the trust, and has duties to perform, and
4. the sole trustee cannot be the sole beneficiary.

In this context, a beneficiary is definite if they can be ascertained now or in the future. A trust may have both a definite beneficiary and a purpose.

4.1.1. Registration of a Trust

A trust is only established, valid, and binding once it has been registered with the QFC Authority and the details are included in the register. A trust is registered by filing the prescribed form with the QFC Authority, accompanied by any documents required and upon payment of prescribed fees. The application is made by the person who will become the trustee upon registration. At all times, a trust must have at least one trustee, details of whom must be included in the register. It is the responsibility of the trustee to ensure that those details are, at all times, accurate and up to date.

On registration of a trust, the QFC Authority must do the following:

- issue a certificate confirming that the trust is registered, the name of the trust and effect from the date
- allocate a registration number
- enter in the register:
    - the name and registered number of the trust:
    - the objectivs of the trust, and
    - the names of the trustees.

The register is maintained by the QFC Authority.

The certificate of registration is conclusive evidence of the registration of the trust under the specific name and that the registration process has been complied with.

Information in the register will not be made publicly available by the QFC Authority, unless the information is contained in the certificate of registration, or when it is considered appropriate and pursuant to:

- a statutory obligation, or
- a court order.

4.2 Acceptance of Trusteeship

The acceptance of the post of trustee does not necessarily have to be on a formal basis, but can equally be on an informal basis as defined in the terms of the trust. In the event the terms of the trust do not specify how trusteeship is to be accepted, there are a number of ways trusteeship is deemed to be accepted:

- acceptance of delivery of the trust property
- exercising powers or performing duties as trustee, or
- otherwise indicating acceptance of the trusteeship.

4.3 Governing Law and Jurisdiction

If a trust instrument explicitly specifies it is governed by the laws of a particular jurisdiction, this is considered to be conclusive unless the law in that jurisdiction does not provide for that kind of trust.

4.4 Place of Administration

A trustee is under a continuing duty to administer the trust at a place appropriate to its purposes, its administration, and the interests of the beneficiaries or in achieving its purposes in accordance with the terms of the trust.

The terms of a trust designating the place of administration are valid and conclusive if the designated jurisdiction is the location of the trustee's principal place of business, the residence of the trustee or where part of the administration occurs.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What document permits the transfer of shares by a member of a limited liability partnership (LLC)?
   Answer Reference: Section 1.2.2

2. How many directors must an LLC have?
   Answer Reference: Section 1.3.1

3. Why do directors of an LLC have to disclose their interest?
   Answer Reference: Section 1.3.3

4. How frequently must a general meeting of an LLC be held?
   Answer Reference: Section 1.4.1

5. What are the features of a protected cell company (PCC)?
   Answer Reference: Section 2.1.1

6. What is the difference between a general partnership and a limited partnership?
   Answer Reference: Section 3.2

7. What is the liability of each partner in a general partnership?
   Answer Reference: Section 3.4

8. What are two ways in which a person designated as a trustee can accept the trusteeship?
   Answer Reference: Section 4.2

Chapter Three

Other QFC Regulations

1. Contract Regulations 2005 45

2. Insolvency Regulations 2005 48

3. Employment Regulations 51

This syllabus area will provide approximately 3 of the 75 examination questions

1. Contract Regulations 2005

Learning Objective

3.1.1 Know the basic criteria that support the nature of a contract and its formation

Article 6 – Freedom of Contract; Article 7 – Governing Law and Jurisdiction; Article 8 – Form of Contract; Article 9 – Binding Character of Contract; Article 10 – Exclusion or Modification by the Parties; Article 11 – Usage and Practices; Article 12 – Notices; Article 13 – Negotiations; Article 14 – Confidentiality; Article 15 – Manner of Formation; Article 16 – Definition of Offer; Article 17 – Withdrawal of Offer; Article 18 – Revocation of Offer; Article 19 – Rejection of Offer; Article 20 – Mode of Acceptance; Article 21 – Time of Acceptance

The regulations relating to this section are the Contract Regulations 2005, which are designed following Article 9 of the QFC Law and apply in the Qatar Financial Centre (QFC).

The laws, rules and regulations of the State of Qatar regarding contract regulations do not apply in the QFC. The contract regulations in the QFC, therefore, are separate from state laws, rules and regulations.

The QFC contract regulations apply to all contracts where the parties have agreed to incorporate them into their contract.

1.1 Nature of a Contract

In order to be able to enter into a contract, a natural person will need to be over 18 years of age and not declared incapable due to mental illness.

If a person not of competent legal capacity enters into a contract, the contract is voidable at the decision of the person themselves or their representative, or by the order of the Tribunal (the QFC Tribunal and Dispute Resolution Regulations 2005).

The parties to a contract are free to choose the governing law and jurisdiction of any contract they enter into, and contracts do not have to be made or evidenced in writing.

A contract validly entered into is binding upon the parties to the contract. It can only be modified or terminated in accordance with its terms or by agreement or as otherwise provided in these regulations.

The rules regarding validity (see section 1.3) are mandatory. Any other regulations may be included, excluded or varied as agreed between the parties to a contract.

The parties to a contract are bound by any usage and any practices to which they have agreed between themselves. In addition, the parties are bound by any well-known practices or customs which are applicable in international trade for the type of trade the parties have entered into. There are, however, two exemptions to this. The parties are not bound by any practice or custom if it is specifically excluded in the contract or would be unreasonable.

A notice is any declaration, demand, request or any other communication of intention. Notice may be given in person or by fax or air courier. When specifically stated in the contract, notice may be given by post or email.

A notice is effective when it reaches the person to whom it is given, which is the time at which it is orally, or in writing, delivered at that person's place of business (or, if sent by post, at that person's mailing address).

1.2 Formation of Contract

A party to a contract is free to negotiate and is not liable for failure to reach an agreement. A party to a contract who has negotiated, or ceased negotiations, in bad faith is liable to compensate the other party for losses caused to that other party.

A party acts 'in bad faith' if they start or continue negotiations but has no real intention of reaching an agreement with the other party.

In the event one of the parties receives confidential information, they have a duty not to disclose that information or to use it improperly for their own purposes. This applies irrespective of whether or not a contract is concluded. In the event the receiving party breaches their duty of confidentiality, they may be liable to pay compensation, which is based on the benefit they received from having access to the information.

A contract is concluded either by the acceptance of an offer or by conduct (behaviour) of the parties that is sufficient to show agreement.

1.2.1 Offer

An offer is a proposal for concluding a contract that is sufficiently definite and indicates the intention of the offeror (the party making the offer) to be bound in case of acceptance. It becomes effective when it reaches the offeree (the person the offer is made to).

An offer may be revoked or withdrawn at any time until the contract is concluded, as long as the withdrawal reaches the offeree before the offeree has sent their acceptance. This is, however, not true for an irrevocable offer which can only be withdrawn if the withdrawal reaches the offeree before, or at the same time, as the offer.

An offer is terminated when a rejection reaches the offeror.

An offer is accepted when the offeree indicates assent to the offer either in writing or in any other way agreed between the parties. Silence or inactivity does not in itself amount to acceptance. The acceptance becomes effective when the indication of assent reaches the offeror.

An offer must be accepted within the time the offeror has fixed or, if no time is fixed, within a reasonable time having regard to the circumstances, including the speed of the means of communication employed by the offeror. An oral offer must be accepted immediately unless the circumstances indicate otherwise.

1.3 Validity and Uncertainty in a Contract

Learning Objective

3.1.2 Know the regulations that apply to areas that may create uncertainty in a contract

Article 32 – Initial Impossibility; Article 33 – Relevant Mistake; Articles 52 and 53 – Express and Implied Terms

This section of the regulations covers the subject of 'validity' (of a contract) and the effect uncertainty has on a contract.

1.3.1 Initial Impossibility

A contract is not invalidated merely because at the time of the conclusion of the contract:

1. it was impossible to perform the obligations agreed in the contract, or
2. a party was not entitled to dispose of the assets subject to the contract.

1.3.2 Relevant Mistake

A 'mistake' is an erroneous assumption relating to facts or law existing when the contract was concluded.

A party to the contract may only avoid the contract on the grounds of a mistake, if the mistake is deemed relevant. This means that the mistake was of such importance that a reasonable person in the same situation would have concluded the contract on materially different terms. The relevant mistake has to be related to the existence, identity, quantity or quality of the subject matter, or the possibility of performing the contract.

In addition, the contract may only be voided in the event that either:

1. the other party made the same mistake, or caused the mistake, or knew or ought to have known of the mistake and it was contrary to reasonable commercial standards of fair dealing to leave the mistaken party in error, or
2. the other party had not, at the time of avoidance, acted in reliance on the contract.

However, a party may not void the contract if it was grossly negligent in committing the mistake or the mistake relates to a matter in regard to which the risk of mistake should be borne by the mistaken party.

1.4 Express and Implied Obligations

The contractual obligations of the parties may be express or implied.

- **Express obligations** – obligations set out explicitly in a contract.
- **Implied obligations** – obligations resulting from reasonableness, the nature and purpose of the contract, and practices established between the parties.

A contract for the sale of goods, for example, implicitly assumes that:

- The seller has the right to sell the goods in question and that such goods are not subject to any encumbrances.
- The goods will correspond with the description.
- In the event the purchaser has specifically identified the purpose for which the goods are bought, the goods are fit for purpose.

A contract for services implicitly assumes that the provider of the services will use reasonable skill in the execution of its obligations.

2. Insolvency Regulations 2005

Learning Objective

3.2.1 Know the basic details of an administration order

Article 7 – Purpose; Article 8 – Administration Order; Article 20 – Application by a Secured Creditor

The Insolvency Regulations applying in the QFC are separate from the laws, rules and regulations of the State of Qatar concerning the insolvency, liquidation, winding up, administration and similar procedures in relation to companies and other bodies corporate and branches.

2.1 Purpose of Administration

The objectives of the administrator of a company are to:

1. rescue all or part of the company as a going concern
2. achieve a more advantageous realisation of the company's assets than creditors would have achieved when the company is wound up, and
3. realise property to make distributions to one or more secured creditors.

The administrator needs to perform their functions in the interests of the creditors as a whole. Realising property to make distributions to secured creditors should therefore only be undertaken if the administrator feels the interests of the creditors as a whole are not unnecessarily harmed, and it is not reasonably practicable to achieve the objectives mentioned under numbers 1 and 2 above.

The administrator's main objective will be to rescue all or part of the company as a going concern, unless they think this is either not reasonably practicable, or the company's creditors are better served when the assets are realised.

In any case, they must perform their functions as quickly and efficiently as is reasonably practicable.

2.2 Administration Order

If the QFC Court is satisfied that a company is, or is likely to become, unable to pay its debts; and considers that the making of an order would achieve one or more of the purposes of administration set out in section 2.1 above, then it may make an 'administration order' in relation to the company.

An administrator of a company is a person appointed under the insolvency regulations to manage the company's affairs, business and property.

The administration order must specify the purpose or purposes for which it is made and cannot be made in relation to a company after it has gone into liquidation. A company goes into liquidation if its members pass a resolution for voluntary winding up or an order for its winding up is made by the QFC Court.

2.2.1 Appointment by Secured Creditor

A secured creditor is a holder of one or more security interests which relate to the whole, or a significantly large part of the company's property. When a secured creditor appoints an administrator of the company they need to give at least two business days' written notice to holders of security interests that have a higher priority than their own, and these persons need to consent in writing to the appointment.

An administrator appointed by a secured creditor has a duty to act in good faith and to take proper care to act in the best interests of all the creditors of the company, while seeking to achieve repayment of the debts owed by the company to the secured creditor.

2.3 Voluntary Winding Up

Learning Objective

3.2.2 Understand the following specific regulations in respect of a voluntary winding up

Article 58 – General Administrative Actions; Article 63 – Declaration of Solvency; Article 64 – Distinction between 'Members' and 'Creditors' Voluntary Winding Up; Article 68 – Effect of Company's Insolvency; Article 69 – Conversion to a Creditors' Voluntary Winding Up

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2.3.1 General Administrative Actions

A company shall be wound up voluntarily:

- in the event circumstances for winding up, provided for in the articles of the company, occur
- if the company resolves that it should be wound up voluntarily, or
- if the company resolves that it cannot continue its business due to its liabilities, and that it is advisable to be wound up.

2.3.2 Declaration of Solvency

In the event of a voluntary winding up of the company, the directors, or in the case where there are more than two directors, the majority, may at a directors' meeting, declare that the company will be able to repay its debts in full within a period of a maximum 12 months from the date of commencement of the winding up. The declaration of solvency:

1. will be based on a full inquiry into the company's affairs
2. specifies the period of wind-up, and
3. must be made at any point within the five weeks before the resolution for winding up is made.

If a director makes a declaration of solvency they need to have reasonable grounds to ensure that the company will be able to pay its debts, including any interest in full, within the specified period. If they do not have reasonable grounds, they commit a contravention and is liable to a financial penalty.

If the company is wound up in pursuance of a resolution passed within five weeks after the making of the declaration, and its debts are not paid or provided for in full within the period specified, it is assumed that the director did not have reasonable grounds for their opinion, unless otherwise proven.

When a company is winding up as a result of a director's declaration it is known as a 'members' voluntary winding up'. A wind-up in the absence of a director's declaration is known as a 'creditors' voluntary winding up'.

2.3.3 Conversion to a Creditors' Voluntary Winding Up

Effect of Company's Insolvency

When the liquidator is of the opinion that the company will be unable to pay its debts in full within the period stated in the directors' declaration, they may convert to a creditors' voluntary winding up.

In order to do so, the liquidator shall summon a meeting of creditors for a day not later than the 21st day after the day on which they decide the company would be unable to pay its debts in full. Notices of the creditors' meeting will be sent to the creditors by post not less than 14 days before the day on which that meeting is to be held. The notice will state that any information concerning the affairs of the company that may be required will be provided by the liquidator to the creditors free of charge.

The liquidator shall also create a statement of the affairs of the company which will be provided to the creditors' meeting. The liquidator's statement includes:

1. particulars of the company's assets, debts and liabilities
2. names and addresses of the company's creditors
3. security interests held by each of the creditors and the dates they were granted
4. any further relevant information.

The conversion to a creditors' voluntary winding up will take effect from the day on which the creditors' meeting is held. From that day on, it will be as if:

- The directors' declaration described above had not been made.
- The creditors' meeting and the company meeting at which it was resolved that the company be wound up voluntarily were the meetings mentioned in the rules associated with the meeting of creditors.

3. Employment Regulations

Learning Objective

3.3.1 Understand the regulations in respect of the following matters

Article 10 – Minors; Article 15 – Discrimination; Article 16 – Whistleblowing; Article 23 – Termination of Employment with Notice; Article 24 – Termination of Employment without Notice; Article 25A – Retirement and Pension; Article 49 – Work Related Injuries

The Employment Regulations that apply in the QFC apply to employees of the QFC authorities and regulators as well as employees of QFC institutions and entities. The regulations are enforced by the Employment Standards Office under the supervision of the QFC Authority.

3.1 Minors

Employees have to be 18 years or older, unless they are employed with the consent of their legal guardian and meet all other applicable requirements set out in the remainder of this chapter.

3.2 Non-Discrimination

Discrimination means to make a distinction based on personal characteristics relating to sex, marital status, race, nationality, religion or mental or physical disability, in such a way that it imposes burdens, obligations or disadvantages on a person that do not apply to other persons. Equally, discrimination occurs when access to opportunities, benefits and advantages are limited or withheld which are available to other persons. Mental or physical disability does not form the basis for a discrimination claim unless it is of a long-term nature, generally for more than 12 consecutive months in duration.

Employers shall not refuse to (continue to) employ or discriminate against a person because of that person's sex, marital status, race, nationality, religion or mental or physical disability, unless there is a bona fide occupational requirement (as determined by the Employment Standards Office).

Discrimination against a disabled person occurs if the employer fails to make reasonable adjustments to assist a disabled person who would otherwise be able to meet all criteria to be employed.

An employer must have policies and procedures implementing the requirements for non-discrimination and must ensure these are known by their employees.

Providing higher benefits to employees who are Qatari nationals in comparison to employees who are not Qatari nationals is permitted and is not considered to be discrimination. These higher benefits could include, but are not limited to, higher salaries, allowances, pension contributions and other entitlements.

3.3 Whistleblowing

A whistleblower is a person who, in good faith, raises concerns about or reports crimes, contraventions (including negligence, breach of contract, breach of law or requirements), miscarriages of justice, dangers to health and safety or the environment and the covering up of any of these by their employer. Whistleblowers shall not be dismissed or otherwise penalised directly or indirectly for such acts, including in respect of any prohibition against disclosure of non-public information.

3.4 Termination of Employment with Notice

Both employers and employees are generally required to give a minimum notice period when they intend to terminate employment. Providing that the employee has been continuously employed for one month or more, the notice given must be at least:

- two weeks, if the continuous period of employment is less than three months
- one month, if the period of continuous employment is three months or more but less than five years, or
- three months, if the period of continuous employment is five years or more.

These notice periods will be in force when no other notice period is agreed between employee and employer. Longer or shorter notice periods may be agreed between the employer and the employee. Either party may waive the notice period, or accept payment in lieu of notice.

Notice of termination of employment must be given in writing. The employer will continue to pay the employee's salary during the notice period.

An employee retains the right to terminate their employment without notice in the event of a material breach of the employment contract, or the employment regulations, by the employer.

3.5 Termination of Employment without Notice

There are a number of circumstances in which an employer can terminate a contract with an employee without notice if there has been a material breach of the employment contract. In addition, employment can be terminated with immediate effect if the employee has:

- submitted false documents or certificates
- committed a mistake that has resulted in substantial financial losses to the employer
- violated instructions relating to the safety of other employees and the establishment more than once, despite being issued a previous written warning
- committed several breaches of their employment contract or these regulations which do not individually constitute a material breach and the employer has previously warned the employee in writing

- divulged secrets of the employer
- been found intoxicated with alcohol or under the influence of illegal narcotics while on duty
- physically assaulted their employer or other employees
- been absent without a justified reason for more than seven consecutive days or for more than 15 days in the aggregate in a 12-month period
- been found guilty in a court verdict of a crime, which the employer, in its absolute discretion, considers sufficiently serious to merit dismissal, or
- otherwise engaged in gross misconduct.

The employer shall, when requested by the employee, provide a written statement of the reason for the termination and of the employee's recourse.

3.6 Retirement and Pension

The retirement and pension law of the QFC took effect on the date the QFC was launched and applies to all Qatari employees of the QFC Authority, and the Regulatory Authority. In addition, the Council of Ministers may notify any other employer in writing that the retirement and pension law applies to them.

The employers to whom the retirement and pension law applies are obliged to co-operate with the General Retirement and Social Insurance Authority and to implement the retirement and pension law within their organisation.

3.7 Work-Related Injuries

If a person dies while performing their work or sustains a work-related injury, the employer or their representative shall immediately notify the Employment Standards Office of the incident, who shall inform the police of the State.

The notification shall include the name, age, profession, address and nationality of the employee and a brief description of the incident, where it took place and the actions taken for rescue or treatment.

The police shall, upon receipt of the information, launch an investigation, and shall include in their report statements of the witnesses and the employer or their representative, if possible, and the statement of the injured employee. The report shall explain the relationship of the incident to the work.

Once the investigation is completed, the police shall send a copy of the report and its findings to the Employment Standards Office and a copy to the employer. The Employment Standards Office may request that further investigation be carried out by the police or may initiate its own investigation if it deems it necessary.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. Who is unable to enter into a contract?
   Answer Reference: Section 1.1

2. List two areas that may create uncertainty in a contract.
   Answer Reference: Section 1.3.2

3. Who may make an administration order?
   Answer Reference: Section 2.2

4. When can a company be wound up voluntarily?
   Answer Reference: Section 2.3

7. What is the minimum employment age?
   Answer Reference: Section 3.1

8. What is the minimum notice period for employees who have worked for:
   a. less than three months?
   b. three months to five years?
   c. five years or more?
   Answer Reference: Section 3.4

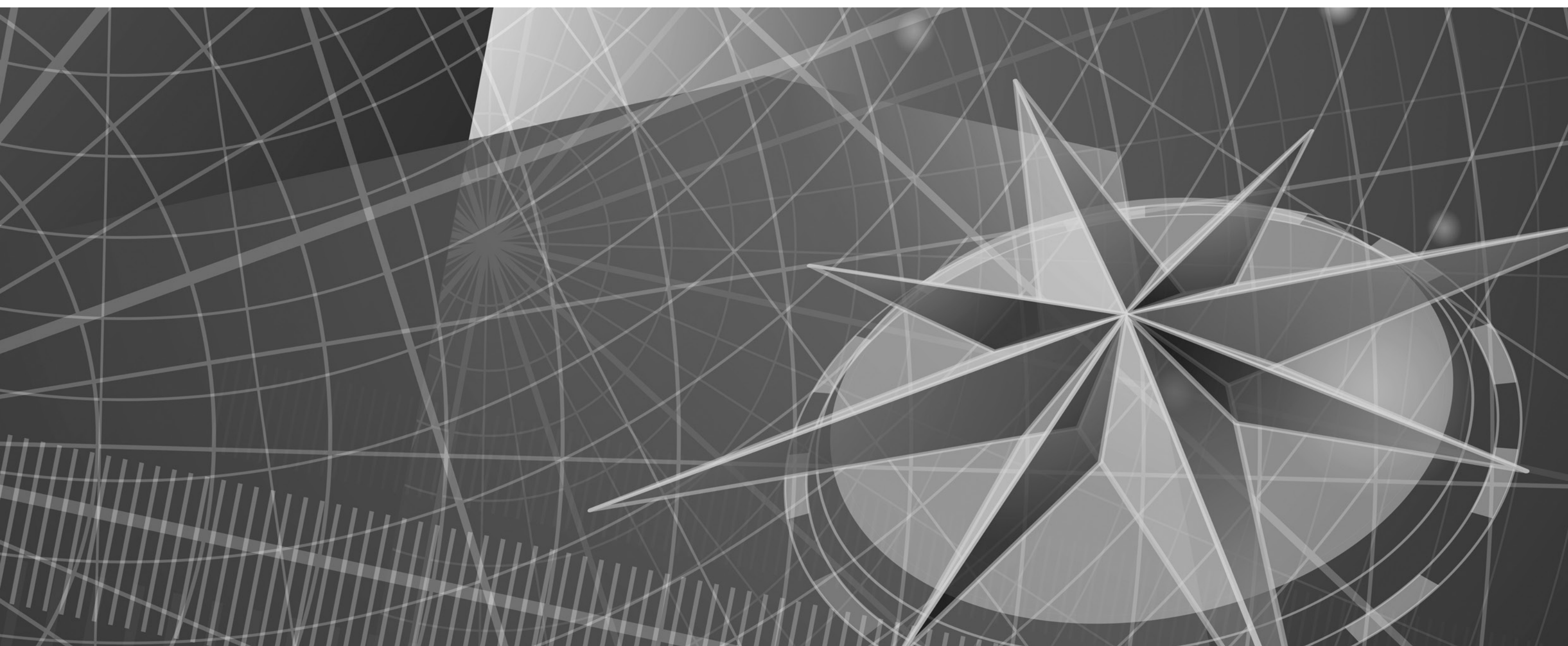
9. What are the employer's responsibilities regarding work-related injuries?
   Answer Reference: Section 3.7

Chapter Four

Industry Protection Rules and Regulations

1.	**Data Protection Regulations 2005**	**57**
2.	**Market Abuse and Contraventions**	**64**
3.	**Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)**	**66**
4	**Client Money**	**80**

This syllabus area will provide approximately 18 of the 75 examination questions



1. Data Protection Regulations 2005

1.1 Processing of Personal Data

Learning Objective

4.1.1 Understand the basic requirements for the processing of personal data

Article 6 – General Requirements; Article 7 – Requirements for Legitimate Processing

Data protection regulations exist to provide protection for information held by entities such as financial services firms that relates to individuals.

Articles 6 and 7 provide the requirements placed on data controllers when processing personal data relating to data subjects. It is important to first understand what is meant by the terms data controller, personal data and data subject.

The regulations define 'data controllers' as *'any person in the QFC who alone, or jointly with others, determines the purpose and means of processing of personal data'*.

'Personal data' is defined as being *'any information relating to an identified natural or an identifiable natural person'*.

'Data subject' is defined as *'the individual to whom personal data relate'*.

In simple terms therefore, the regulations cover firms (data controllers) that hold information (personal data) relating to their customers who are identified natural or identifiable natural persons (data subjects).

The regulations provide protection for this information by stipulating certain requirements from data controllers. The general requirements are for data controllers to ensure that personal data which they process is:

- processed fairly, lawfully, and securely
- processed for specified, explicit and legitimate purposes, in accordance with the rights of the data subject, and not processed any further in a way that is incompatible with those purposes or rights
- adequate, relevant and not excessive in relation to the purposes for which it is collected or further processed
- accurate and, when necessary, kept up to date, and
- kept in a form which permits identification of data subjects for no longer than is necessary for the purpose for which the personal data was collected, or for which it is further processed.

In addition, data controllers are required to take every reasonable step to ensure that any inaccurate or incomplete personal data is erased or deleted, having regard to the reason it was collected or processed. Data controllers are required to establish systems and controls to ensure that it complies with the regulation.

A data controller may only process personal data if:

1. the data subject has given their unambiguous consent
2. processing is necessary for the performance of a contract to which the data subject is party or in order to take steps at the request of the data subject prior to entering into a contract
3. processing is necessary for compliance with any legal obligation to which the data controller is subject
4. processing is necessary in order to protect the vital interests of the data subject
5. processing is necessary for the performance of a task carried out in the interests of the QFC, or in the exercise of the QFC Authority, the QFCRA, Tribunal or Appeals Body functions or powers vested in the data controller, or in a third party to whom the personal data is disclosed, or
6. processing is necessary for the purposes of the legitimate interests pursued by the data controller or by the third party or parties to whom the personal data is disclosed, except when such interests are overridden by compelling legitimate interests of the data subject relating to the data subject's particular situation.

1.2 The Concept of Sensitive Personal Data

Learning Objective

4.1.2 Understand the concept of sensitive personal data and the regulations relating to its processing

Article 8 – Processing of Sensitive Personal Data; Article 26 – Definitions

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The regulations define 'sensitive personal data' as, '*personal data revealing or relating to racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership and health or sex life*'.

Unless a data controller has obtained a permit to process sensitive personal data from the QFC Authority and adequate safeguards are applied, the data controller is prohibited from processing such information unless certain other conditions apply.

A data controller shall not process sensitive personal data unless the data subject has given their explicit consent to the processing of that personal data.

Processing is similar to the requirements in section 1.1 (one of these conditions is that the data subject has given explicit consent to the processing of the data). Again, this must be in writing to provide evidence that such consent has been given by the data subject.

The data controller is permitted to process sensitive personal data when in the following circumstances:

a. it is necessary for the purposes of carrying out the obligations and specific rights of the data controller in the field of employment law
b. processing is necessary to protect the vital interests of the data subject, or of another person, if the data subject is physically or legally incapable of giving consent

c. the processing is carried out by a foundation, association or any other non-profit seeking body in the course of its legitimate activities, with appropriate guarantees that the processing relates solely to the members of the body or to persons who have regular contact with it in connection with its purposes and that the personal data is not disclosed to a third party, without the consent of the data subjects
d. the processing relates to personal data which is manifestly made public by the data subject, or is necessary for the establishment, exercise or defence of legal claims
e. processing is necessary for compliance with any legal obligation to which the data controller is subject
f. processing is necessary to uphold the legitimate interests of the data controller recognised in the international financial markets, providing that such is pursued in accordance with international financial standards, and except when such interests are overridden by compelling legitimate interests of the data subject relating to the data subject's particular situation
g. processing is necessary to comply with auditing, accounting or anti-money laundering obligations that apply to a data controller, or
h. processing is required for the purposes of preventative medicine, medical diagnosis, the provision of care or treatment, or the management of healthcare services, and when that personal data is processed by a health professional subject, under national laws or regulations established by national competent bodies, to the obligation of professional secrecy or by another person also subject to an equivalent obligation of secrecy.

An appeal against a decision of the QFC Authority to refuse to issue a permit to process sensitive personal data may be made to the Tribunal.

In the context of personal data, the following definitions apply:

Appeals Body	The Appeals Body of the QFC established pursuant to Article 8 of the QFC Law.
Companies Registration Office (CRO)	The CRO established pursuant to Article 7 of the QFC Law.
Data Controller	Any person in the QFC who alone, or jointly with others, determines the purposes and means of the processing of personal data.
Data Processor	Any person who processes personal data on behalf of a data controller.
Data Subject	The individual to whom personal data relates.
Identifiable Natural Person	A natural person who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to their physical, physiological, mental, economic, cultural or social identity.
Minister	The Minister of Economy and Commerce of the State.
Personal Data	Any information relating to an identified natural person or an identifiable natural person.

Processing	Any operation, or set of operations, which is performed upon personal data, whether or not by automatic means, such as collection, recording, organisation, storage, adaptation or alteration, retrieval, consultation, use, disclosure by transmission, dissemination or otherwise making available, alignment or combination, blocking, erasure or destruction.
QFC	The Qatar Financial Centre.
QFC Authority or QFCA	The Qatar Financial Centre Authority established pursuant to Article 3 of the QFC Law.
QFC Law	Law No. (7) of 2005 of the State.
Recipient	A person to whom personal data is disclosed, whether a third party or not. However, authorities which may receive personal data in the framework of a particular inquiry shall not be regarded as recipients.
Regulations	Regulations enacted by the Minister in accordance with Article 9 of the QFC Law.
Regulatory Authority	The Regulatory Authority of the QFC established pursuant to Article 8 of the QFC Law.
Rules	Rules made by the QFC Authority pursuant to the QFC Law, these regulations, or any other regulation pursuant to which the QFC Authority has power to make rules, including, where the context permits, standards, principles and codes of practice.
Sensitive Personal Data	Personal data revealing or relating to racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership and health or sex life.
State	The State of Qatar.
TDR Regulations	Regulations to be enacted, or enacted by the Minister with the consent of the Council of Ministers pursuant to the QFC Law relating to the Tribunal and the resolution of disputes.
Third Party	A person other than the data subject, the controller, the processor and the persons who, under the direct authority of the controller or the processor, are authorised to process the data.
Tribunal	The Tribunal established, or to be established pursuant to the TDR Regulations.

1.3 Transfer of Personal Data to Another Jurisdiction

Learning Objective

4.1.3 Know the circumstance under which personal data may be transferred to another jurisdiction and the level of protection that is required

Article 9 – Transfer to Jurisdictions with Adequate Levels of Protection, Article 10 – Transfer to Jurisdictions without Adequate Levels of Protection

Personal data may only be transferred to a recipient in a jurisdiction outside the QFC if an adequate level of protection is ensured by laws and regulations that apply to the recipient.

This means that before transferring personal data, a data controller must assess the adequacy of the laws and regulations in the jurisdiction where the recipient is located. The adequacy of the level of protection ensured by laws and regulations to which the recipient is subject as referred to in Article 9 (1) shall be assessed in the light of all the circumstances surrounding a personal data transfer operation or set of personal data transfer operations, including but not limited to:

a. the nature of the data
b. the purpose and duration of the proposed processing operation or operations
c. if the data does not emanate from the QFC, the country of origin and country of final destination of the personal data, and
d. any relevant laws to which the recipient is subject, including professional rules and security measures.

In the event that a data controller wishes to transfer personal data to a recipient that is not subject to laws and regulations that offer adequate protection, transfer is only allowed if the following conditions are met:

a. the QFC Authority has granted a permit for the transfer of the set of transfers and the data controller applies adequate safeguards with respect to the protection of this personal data
b. the data subject has given their unambiguous consent to the proposed transfer
c. the transfer is necessary for the performance of a contract between the data subject and the data controller, or the implementation of pre-contractual measures taken in response to the data subject's request
d. the transfer is necessary for the conclusion or performance of a contract concluded in the interest of the data subject between the data controller and a third party
e. the transfer is necessary or legally required on grounds important to the interests of the QFC, or for the establishment, exercise, or defence of legal claims
f. the transfer is necessary in order to protect the vital interests of the data subject
g. the transfer is made from a register which, according to laws or regulations, is intended to provide information to the public and which is open to consultation either by the public in general or by any person who can demonstrate legitimate interest to the extent that the conditions laid down in law for consultation are fulfilled in the particular case
h. the transfer is necessary for compliance with any legal obligation to which the data controller is subject

i. the transfer is necessary to uphold the legitimate interests of the data controller recognised in the international financial markets, providing that such is pursued in accordance with international financial standards, and except when such interests are overridden by compelling legitimate interests of the data subject relating to the data subject's particular situation, or
j. the transfer is necessary to comply with auditing, accounting or anti-money laundering obligations that apply to the data controller.

An appeal against a decision by the QFC Authority to refuse to issue a permit referred to above may be made to the Tribunal.

1.4 Data Subject – Protection of Information

Learning Objective

4.1.4 Know the requirements relating to the protection of information obtained from, or concerning, a data subject

Article 11 – Providing Information where Data Obtained from the Data Subject; Article 12 – Providing Information where Data not Obtained from the Data Subject; Article 13 – Confidentiality; Article 14 – Security of Processing; Article 15 – Right to Access, Rectification, Erasure and Blocking of Personal Data; Article 16 – Right to Object to Processing

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Unless the data controller reasonably expects that the data subject has already been provided with appropriate information relating to the collection of their personal data, the data controller must, immediately on collecting the personal data, provide the data subject with the following information:

- the identity of the data controller
- the purpose of the processing for which the personal data is intended, and
- other information necessary relating to the guarantee of fair processing in respect of the data subject, such as:
  - the recipients or categories of recipients of the personal data
  - whether replies to questions are obligatory or voluntary, as well as the possible consequences of failure to reply
  - the existence of the right of access to, and the right to rectify personal data
  - whether the personal data will be used for direct marketing purposes, and
  - whether the personal data will be processed with adequate levels of protection.

If the personal data has not been obtained directly from the data subject, the data controller must, when receiving the personal data, at least provide the following information to the data subject:

- the personal data or categories of personal data concerned, and
- the information set out above relating to personal data received from data subjects.

The data controller does not have to provide this information if it expects that the data subject already has it, or if the provision of such information proves impossible or involves a disproportionate effort.

In all cases, the regulations place additional responsibilities for maintaining confidentiality and security of processing of personal data on the data controller and/or data processor. The rules stipulate that personal data must not be processed without instructions from the data controller, unless required to do so by law.

In addition, the rules require that data controllers must implement appropriate technical and organisational measures to protect personal data against accidental or unlawful destruction or accidental loss, alteration, unauthorised disclosure or access, and against all other unlawful forms of processing, in particular when the processing of personal data is performed pursuant to the rules outlined in chapter 5, sections 1.2 and 1.1 above.

Having regard to the cost of their implementation, such measures shall ensure a level of security appropriate to the risks represented by the processing and the nature of the personal data to be protected.

The data controller must, if processing is carried out on its behalf, choose a data processor providing sufficient guarantees in respect of the technical security measures and organisational measures governing the processing to be carried out, and must ensure compliance with these measures.

A data subject has the right to request at reasonable intervals and without excessive delay or expense:

- confirmation as to whether personal data relating to them is being processed and, if so, information at least as to the purpose of the processing, the categories of personal data concerned and the recipients or categories of recipients to whom the personal data is disclosed
- communication to them in an intelligible form of the personal data undergoing processing and of any available information as to its source, and
- as appropriate, the rectification, erasure or blocking of personal data, the processing of which, does not comply with the provisions of the regulations.

In addition to requests for information, a data subject has the right to object at any time, on reasonable grounds relating to their particular situation, to the processing of personal data relating to them, and to be informed before personal data is disclosed for the first time to third parties or used on their behalf for the purposes of direct marketing, and to be expressly offered the right to object to such disclosures or uses.

If there is a justified objection, the processing instigated by the data controller shall no longer include that personal data.

Further, if the data controller intends to disclose personal data to a third party or it is to be used on their behalf for direct marketing, the data subject must be expressly offered the right to object.

Clearly, a data processor will need to include in its policies, systems and controls, the appropriate procedures in order to comply with these requirements.

2. Market Abuse and Contraventions

Learning Objective

4.2.1 Understand the regulations relating to the behaviour by a person which may be construed as being abusive conduct in respect of an investment or a transaction in an investment

Article 82 – Abusive Conduct, Financial Services Regulations

Abusive conduct covers both insider information, the execution of transactions in such a way that it gives misleading impressions regarding price and volume, and the use of false or misleading information.

The following behaviour is unacceptable in relation to an investment:

1. buying or selling an investment, on the basis of inside information whether it is for their own account or the account of a third party
2. disclosing inside information to another person outside the normal course of their employment, profession or duties
3. recommending or inducing any person to buy or sell an investment on the basis of inside information
4. effecting transactions or orders to trade which give, or are likely to give, a false or misleading impression related to the supply or demand, or price or value of an investment, or secure the price of an investment at an abnormal or artificial level
5. effecting transactions or orders to trade which employ fictitious devices (or participating therein) or any other form of deception or contrivance, or
6. disseminating information which may give a false or misleading impression regarding an investment by a person who knew or could reasonably be expected to have known that the information was false or misleading.

Notwithstanding the above, the person is equally guilty to abusive conduct in the event they participated in, or attempted any of the above, without the actual act taking place.

2.1 Contravention of a Relevant Requirement

Learning Objective

4.2.2 Understand the regulations that would apply to a person who contravenes a relevant requirement

Article 84 – Contravention of Relevant Requirements; Article 85 – Involvement in Contraventions, Financial Services Regulation

A person is generally contravening a relevant requirement when they:

a. fail to comply with any prohibition or requirement from the QFCRA, to do something that is prohibited or breaches the requirements or the QFC Law
b. fail to comply with any prohibition or requirement imposed by the QFCRA

c. do anything that is prohibited under or breaches any requirement of the QFC Law and related rules and regulations
d. omit to do anything that is required under the QFC Law, the rules or related regulations
e. commit an act of fraud or abuse any fiduciary duty owed to clients or customers, or
f. otherwise commit any contravention described as such in the regulations.

More specifically, a person contravenes a relevant requirement if they

a. knowingly or recklessly provide false, misleading or deceptive information to the QFCRA, or conceal information which is likely to result in misleading or deceiving the QFCRA
b. conduct regulated activities in, or from the QFC, in breach of laws related to licensing of operations
c. know or suspect that the QFCRA action under Parts 5–10 of the Financial Services Regulations, relating to the management objectives, duties, functions, powers and constitution of the QFC QFCRA, is being, or is likely to be, conducted and:
    - falsifies, conceals, destroys or otherwise disposes of a document which they know or suspect is, or would be, relevant to such action, or
    - causes or permits the falsification, concealment, destruction or disposal of such a document, unless they show that they have no intention of concealing facts disclosed by the documents from the Regulatory Authority or any nominated person preparing a report or investigator undertaking an investigation under Part 8 (Supervision and Investigations) of these regulations.

In relation to the above, Articles in Parts 5–10 of the Financial Services Regulations refer to:

Part 5: Authorisation Requirements and Process:

Part 6: Controllers:

Part 7: Individuals and Controllers Functions:

Part 8: Supervision and Investigations:

Part 9: Disciplinary and Enforcement Powers:

Part 10: Enforcement Procedure:

In addition to the contravention of the requirements directly, a person can also be knowingly involved in the contravention of a relevant requirement, either in an individual capacity or as a result of their function. In these cases, the person also commits a contravention of the relevant requirement. A person is knowingly concerned in a contravention of a relevant requirement under the following circumstances:

a. they have aided, abetted, counselled, or procured the contravention
b. they have induced, whether by threats or promises or otherwise, the contravention
c. they have in any way, by act or omission, directly or indirectly, been knowingly involved in, or been party to, the contravention, or
d. they have conspired with another or others to commit the contravention.

3. Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)

The subject of the prevention of money laundering is one of dynamism and constant change as rules and regulations continue to be updated to meet the need to combat financial crime. The regulations in this chapter reflect the regulations as defined in Law No. 4 of 2010 for the issuance of the Anti-Money Laundering and Counter-Terrorism Financing Law, enacted 18 March 2010.

Rules related to money laundering and the combating of terrorist financing in the QFC are defined in the Anti-Money Laundering and Combating of Terrorist Financing Rules of 2010, and are generally referred to as AML/CTFR. The rules apply to all firms that conduct business or activities in, or from, the QFC.

In 2012, specific AML/CTF rules were defined for general insurance companies. These rules came into effect on 1 January 2016.

Learning Objective

4.3.1 Know the key AML/CFT principles

Rules 1.2.1–1.2.6

Money laundering is the process of turning 'dirty' money (money derived from criminal activities) into money which appears to be from legitimate origins. Dirty money is difficult to invest or spend, and carries the risk of being used as evidence of the initial crime. Laundered money can more easily be invested and spent without risk of incrimination.

Increasingly, AML provisions are being seen as the frontline against drug dealing, organised crime and the financing of terrorism. Much police activity is directed towards making the disposal of criminal assets more difficult and monitoring the movement of money.

The rulebook identifies the following six principles for AML and CFT:

- **Principle 1: Senior Management Responsibility** – the senior management of a firm must ensure that the firm's policies, procedures, systems and controls appropriately and adequately address the requirements of the AML/CFT Law and these rules.
- **Principle 2: Risk-Based Approach** – a firm must adopt a risk-based approach to these rules and their requirements.
- **Principle 3: Know Your Customer –** a firm must know each of its customers to the extent appropriate for the customer's risk profile.
- **Principle 4: Effective Reporting** – a firm must have effective measures in place to ensure that there is internal and external reporting, whenever money laundering or terrorist financing is known or suspected.

- **Principle 5:** High Standard Screening and Appropriate Training – a firm must:
  - have adequate screening procedures to ensure high standards when appointing or employing officers and employees, and
  - have an appropriate ongoing AML/CFT training programme for its officers and employees.
- **Principle 6: Evidence of Compliance –** a firm must be able to provide documentary evidence of its compliance with the requirements of the AML/CFT Law and these rules.

3.1 Definition of Money Laundering and Customers

Learning Objective

4.3.2 Know the definition of 'money laundering' and 'customer'

AML/CTFR Law No 4, Article 1; AML/CFT Rule 1.3.4 – Who is a Customer?

3.1.1 Definition of Money Laundering

Money laundering occurs following a criminal act, anywhere in the world, which has resulted in a financial gain to the criminal. The financial gain is deemed to be criminal property and criminals go to great lengths to hide or disguise the true origin and ownership of it.

Article 1 of AML/CFT Law No 4 of 2010 defines money laundering as any of the following acts:

1. The conversion or transfer of funds by any person who knows, should have known or suspects that such funds are the proceeds of crime, for the purpose of concealing or disguising the illicit origin of such funds or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequences of their actions.
2. The concealment or disguise of the true nature, source, location, disposition, movement or ownership of, or rights with respect to, funds by any person who knows, should have known or suspects that such funds are the proceeds of crime.
3. The possession, acquisition, or use of funds by any person who knows, should have known or suspects that such funds are the proceeds of crime.

Example

Mr A is selling drugs for QAR200,000. He requests his friend, Mr B to keep the cash for him, knowing that it was obtained from the sale of drugs. Mr B is committing an offence under the Money Laundering Regulations.

Similarly, if Mr B uses the cash to purchase a car from a dealer who also knows from where the money came, the car dealer is also committing a money laundering offence relating to criminal property.

3.1.2 Definition of Customer

Criminals will often seek to become a customer of a financial institution in order to use the firm to attempt to hide and disguise criminal property.

In the AML/CFT regulations, a customer, in relation to a person (A), includes any person (B) who engages in, or who has contact with (A) with a view to engaging in any transaction with (A) or with a member of (A)'s group:

- on (B)'s own behalf, or
- as agent for or on behalf of another person.

A customer includes current and prospective clients and investors of (A), or of a member of (A)'s group. Both (A) and (B) can either be an individual or a firm.

3.2 General Requirements for AML/CFT Programmes and Policies

Learning Objective

4.3.3 Understand the general requirements to develop AML/CFT programmes and policies

Rule 2.1.1 – Firms to Develop; Rule 2.1.2 – Policies, Must be Risk-Sensitive, Appropriate and Adequate; Rule 2.1.3 – Matters to be Covered by Policies; Rule 2.1.4 – Assessment and Review of Policies

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3.2.1 AML/CFT Programmes

Law 20 of 2019, a new AML Law, was enacted in September 2019. It covers both money laundering and terrorist financing. The AML content covered in this workbook pre-dates the new law, but is still relevant and remains largely in line with the new AML/CFT laws.

A firm must develop a programme against money laundering and terrorist financing. A firm's AML/CFT policies, procedures, systems and controls must be risk-sensitive, appropriate and adequate, having regard to the risk of money laundering and terrorist financing and the size, complexity and nature of its business.

In order to prevent a firm being used to facilitate money laundering and terrorist financing, it must have adequate internal policies, procedures, systems and controls in place, which must be reviewed on a periodical basis and amended as necessary.

These include adequate screening procedures for employees and officers, ongoing training programmes, an adequately resourced and independent audit function, and appropriate compliance management arrangements. It is the responsibility of the audit function to test compliance with the firm's policies, procedures, systems and controls.

3.2.2 AML/CFT Content

To ensure that a firm does not get involved with money laundering or other financial crime, there are a number of policies, procedures, systems and controls that can be prescribed. The areas that must, as a minimum, be covered are as follows:

a. Customer due diligence measures and ongoing monitoring.
b. Record-making and retention.
c. The detection of suspicious transactions.
d. The internal and external reporting obligations.
e. The communication of the policies, procedures, systems and controls to the firm's officers and employees.
f. Anything else required under the AML/CFT Law or these rules.

One of the indicators of potential money laundering or financial crime is complex or unusual large transactions, and unusual patterns of transactions, that have no apparent economic or visible lawful purpose. In order to ensure whether these transactions are legitimate, they should be examined carefully prior to execution.

However, the firm should not just focus on complex or unusually large transactions, but should examine any transaction that it considers likely to be related to money laundering or terrorist financing. Large cash deposits, for example, will always warrant additional attention.

Enhanced customer due diligence (CDD) will be required for transactions that favour anonymity. In addition, appropriate measures need to be in place to reduce the risks associated with establishing a business relationship with politically exposed persons.

Specific due diligence is also required as part of the process of outsourcing a function or activity, since the firm remains ultimately responsible for the function. In addition, in order to mitigate any risk of being involved in financial crime via an outsourcing party, the firm will need to monitor the third party on an ongoing basis.

All employees and officers of the firm have the responsibility to report suspicious transactions.

All policies, procedures, systems and controls that the firm puts in place will need to be designed to mitigate the risks for the firm, but also to ensure that the firm complies with the AML/CFT Law and the associated rules.

3.2.3 Policy Assessment and Review

In order to ensure the AML/CFT policies, procedures, systems and controls remain adequate and effective, they must be reviewed on a regular basis. The review needs to be carried out at least annually.

3.3 Officers, Employees, Agents, Contractors, Branches, Associates and Third Parties

Learning Objective

4.3.4 Know how the rules apply to officers, employees, agents, branches, associates, outsourced functions and activities (Rules 2.1.5 – 2.1.7)

Rule 2.1.5 – Compliance by Officers, Employees, Agents; Rule 2.1.6 – Application of AML/CFT Law Requirements, Policies to Branches and Associates; Rule 2.1.7 – AML/CFT Law Requirements, Policies to Outsourced Functions and Activities

3.3.1 Officers, Employees, Agents

It is the responsibility of the firm to ensure that all its officers, employees, agents and contractors comply with the requirements of the AML/CFT Law and Rules as well as the firm's AML/CFT policies, procedures, systems and controls. This responsibility applies no matter where the officers, employees, agents or contractors are based unless the law of another jurisdiction takes precedence. However, if the law of another jurisdiction prevents the firm from applying the rules they must immediately tell the Regulator about the matter.

The firm's AML/CFT policies, procedures, systems and controls must, unless prohibited by the laws in another jurisdiction:

- require all officers, employees, agents and contractors to provide suspicious transaction reports to the firm's money laundering reporting officer (MLRO) on any suspicious transaction disregarding its location, and
- provide timely, unrestricted access to all documents and information of the firm that relate (in) directly to transactions in, from, or to, this jurisdiction to the following parties:
  - the firm's senior management
  - the firm's MLRO
  - the Regulator, and
  - the Financial Information Unit (FIU).

The firm may apply higher, consistent standards for AML/CFT than those that apply in the jurisdictions their customers are based in.

3.3.2 Branches and Associates

The rules outlined in section 3.3.1 also apply to officers, employees, agents and contractors of branches in foreign jurisdictions, or associates in foreign jurisdictions over which the firm can exercise control. The branch or associate must implement the highest standards (whether the QFCRA standard or the foreign jurisdiction's standard) unless this is prevented by law in the foreign jurisdiction. The firm, its branches, and other members of the group, may apply higher, consistent standards for AML/CFT in relation to clients whose transactions or operations extend across the firm, its branches, and other members of the group.

In this context, a foreign jurisdiction is defined as a jurisdiction other than Qatar and includes the Qatar Financial Centre (QFC). An associate is defined as a legal person in the same group as the firm or a subsidiary of the firm.

3.3.3 Outsourced Functions and Activities

Outsourcing is any form of arrangement involving the firm relying on a third party service provider for the exercise of a function or activity that would otherwise be undertaken by the firm.

When outsourcing a function or activity, the firm and its senior management remain responsible for ensuring that the AML/CFT Laws are complied with. Through a service level agreement or other contract, the firm needs to ensure that the third party including its officers, employees, agents and contractors are subject to the same obligations as those outlined in section 3.3.1, unless this is prevented by the laws in the jurisdiction where the third party is based, in which case the firm must immediately inform the regulator.

For authorised firms, this requirement is in addition to the provisions on outsourcing in the Controls Rulebook.

3.4 The Risk-Based Approach Generally

Learning Objective

4.3.5 Know the risk mitigation and assessment requirements of firms

Rule 3.1.1 – Firms must Conduct Risk Assessment and Decide Risk Mitigation; Rule 3.1.2 – Approach to Risk Mitigation must be Based on Suitable Methodology

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A firm must conduct an assessment of the money laundering and terrorist financing risks that it faces (a 'business risk assessment'), including, for example, risks arising from the types of its customers, the types of products and services it provides and the technologies it uses to provide those products and services. The firm must take into consideration both current and proposed clients, products and services, and technologies.

Once it has defined the risks, the firm must decide what action is needed to mitigate them.

The intensity of a firm's approach to the mitigation of its money laundering and terrorist financing risks must be based on a suitable methodology (a 'threat assessment methodology') to address the risks that it faces. A firm must be able to demonstrate that its threat assessment methodology meets the following requirements:

a. It includes assessing the risk profile of the business relationship with each customer by scoring the relationship.
b. It is suitable for the size, complexity and nature of the firm's business.

c. It is designed to enable the firm to:
   - identify and recognise any changes in its money laundering and terrorist financing risks, and
   - change its threat assessment methodology as needed
d. It includes assessing risks posed by new products and services: and new or developing technologies.

A firm must also be able to demonstrate that its practice matches its threat assessment methodology.

3.5 Customer Identification

Both knowing your customer (KYC) and customer due diligence (CDD) are of the utmost importance in AML and CFT.

3.5.1 Know Your Customer (KYC)

Learning Objective

4.3.6 Know the duties and responsibilities of a firm in respect of the 'know your customer' requirements

Rule 4.1.1 – Know Your Customer Principle – General; Rule 4.1.2 – Overview of CDD Requirements; Rule 4.1.3 – Customer Identification Documents; Rule 4.2.1 – What are Customer Due Diligence Measures? Rule 4.2.2 – What is Ongoing Monitoring?

The 'know your customer' (KYC) principle requires every firm to know who its customers are, and have the necessary customer identification documentation, data and information to evidence customer due diligence (CDD) measures.

In order to ensure that the firm knows its customers and its customers' business, it must not enter into a relationship with a customer unless it has identified and verified all relevant parties including any beneficial owners. In addition, it needs to clarify the purpose and intended nature of the business that is expected to be conducted with the customer. If the firm cannot obtain satisfactory evidence of identity for all relevant parties, it must not establish the relationship or enter into a transaction with the potential customer and must instead consider filing a suspicious transaction report to the FIU.

Once the initial CDD has been undertaken and a business relationship has been established, the firm must periodically assess the business that it has undertaken against the expected patterns of activity. Any unexpected activity needs to be examined to decide whether there may be a suspicion of money laundering or terrorist financing.

For the purpose of KYC and CDD, the firm needs to obtain a set of documents that are referred to as the Customer Identification Documents which can be summarised in the following table:

Customer Due Diligence Measures	The Person
	The identity
	What does the customer do?
	Who controls the customer?
	Economic Activity
	Where does the money derive from?
	What is the customer doing with the money?
	Monitoring

The customer identification documents form the basis of the firm's knowledge of the customer and are used to drive the risk assessment of the customer. The risk assessment, in turn, drives the intensity of CDD measures and ongoing monitoring.

General CDD Measures

Although some CDD measures are generic, there are a number that depend on the type of customer such as agents, legal persons and beneficial owners.

All Customers

For all customers of a firm, the firm needs to establish the identity of the customer and verify the customer's identity, using reliable, independent source documents, data or information. In addition, the firm needs to obtain information regarding the sources of the customer's wealth and funds as well as the purpose and intended nature of the business relationship.

Customer is Acting on Behalf of Another Person

In the event that the customer is acting on behalf of another person, the firm needs to verify that the customer is authorised to act on behalf of this person, and undertake the same measures as if the person was a customer (ie, identifying the person and verifying their identity).

Customer is a Legal Person or Legal Arrangement

In the event the customer is a legal person or legal arrangement, the firm needs to ensure that this person is authorised to act on behalf of the customer. In addition to establishing and verifying the identity of the person, the firm will need to verify the person's legal identity and take reasonable measures, on a risk-sensitive basis to:

- understand the customer's ownership and control structure, and
- establish the individuals who ultimately own or control the customer, including the individuals who exercise ultimate effective control over the customer.

Examples of the measures required under this rule are:

- if the customer is a company – identifying the individuals with a controlling interest and the individuals who comprise the mind and management of the customer, and
- if the customer is a trust – identifying the settlor, any protector, the trustee or person exercising effective control over the trust, and the beneficiaries.

In this case, the firm needs to establish further whether the person is the beneficial owner.

Customer is Not the Beneficial Owner

If this is not the case, the firm needs to establish and verify the identity of the beneficial owner in the same way as it would check and verify the identity of any other customer. In the event that the beneficial owner is a legal entity, the provisions outlined in the above section apply.

3.5.1.2 Ongoing Monitoring

In relation to existing customers, ongoing monitoring is associated with transactions and customer documentation.

- **Transactions** – transactions conducted under the relationship with the customer need to be reviewed to ensure that they are consistent with the firm's knowledge of the customer, its business, its risk profile, and (if applicable) the source of its funds.
- **Customer documentation** – all documents, data, and information collected as part of CDD measures and on an ongoing basis need to be kept up to date and relevant.

3.5.2 Customer Due Diligence (CDD)

Learning Objective

4.3.7 Understand the requirements of the rules regarding customer due diligence (CDD) measures

Rule 4.3.1 – Firm to Assess Applicants for Business; Rule 4.3.2 – When CDD Required – Basic Requirement; Rule 4.3.3 – Firm unable to complete CDD for customer; Rule 4.3.4 – When CDD may not be Required – Acquired Businesses

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A firm must decide, from the outset of its dealings with an applicant for business, whether the person is seeking to establish a business relationship with the firm or is an occasional customer seeking to carry out a one-off transaction. A firm must conduct CDD measures for a customer, including for powers of attorney and wire transfers, when it:

- establishes a business relationship with the customer, or
- conducts a one-off transaction for the customer with a value (or, for transactions that are or appear (whether at the time or later) to be linked, with a total value) of at least the threshold amount, or
- suspects the customer of money laundering or terrorist financing, or
- has doubts about the veracity or adequacy of documents, data or information previously obtained in relation to the customer for the purposes of identification or verification.

The 'threshold amount' is QR55,000 (or its equivalent in any other currency at the relevant time).

If a firm cannot complete CDD measures for a customer, for example, because the firm is unable to verify the customer's identity using reliable, independent sources, data or information or the customer exercises cancellation or cooling-off rights, the firm must:

a. immediately terminate any relationship with the customer, and
b. consider whether it should make a suspicious transaction report to the FIU.

CDD may not be required when a firm acquires the business of another firm, either in whole or as a product portfolio (for example, the mortgage book). In this event, the firm is not required to conduct CDD measures for all customers acquired with the business if:

a. all customer account records are acquired with the business, and
b. due diligence inquiries before the acquisition did not give rise to doubt that the AML/CFT procedures followed for the business were being conducted in accordance with the AML/CFT Law and the KYC rules or the law of another jurisdiction that has an effective AML/CFT regime.

However, if it is not possible to establish whether the AML/CFT procedures followed by the acquired business were conducted in accordance with the AML/CFT Law and the KYC rules or the law of another jurisdiction with an effective AML/CFT regime, the firm's senior management must prepare or approve, and document, an action plan that ensures that the firm conducts CDD measures for all of the customers acquired with the business as soon as possible.

In addition, even if the AML/CFT procedures were conducted in accordance with the AML/CFT Law but full customer records are not available to the firm for all of the customers acquired with the business, the firm's senior management must prepare or approve, and document, an action plan that ensures that the firm conducts CDD measures as soon as possible for all of the customers for whom full customer records are not available to the firm.

3.5.3 Enhanced and Reduced Customer Due Diligence

Learning Objective

4.3.8 Know the requirements for ongoing, enhanced and reduced CDD

Rule 4.4.1 – Enhanced CDD and Ongoing Monitoring – General; Rule 4.5.1 – Reduced or Simplified CDD – General

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Under certain circumstances, basic CDD will not be sufficient, in which case a firm must, on a risk-sensitive basis, conduct 'enhanced CDD measures' and 'enhanced ongoing monitoring'. This may be required by law or in situations that by their nature can present a higher risk of money laundering or terrorist financing.

A firm may conduct reduced or simplified CDD measures for a customer in cases where it is permitted to do so when it:

a. establishes a business relationship with the customer, or
b. conducts a one-off transaction for the customer for which basic CDD is required as described in section 1.5.2.

However, reduced or simplified CDD measures must not be conducted if there is a suspicion of money laundering or terrorist financing.

3.5.4 Customer Identification

Learning Objective

4.3.9 Know the requirements of the rules and regulations regarding customer identification

Rule 4.6.1 – Elements of Customer Identification Documentation; Rule 4.6.2 – Records of Customer Identification Documentation; Rule 4.6.6 – Customer Identification Documentation – Individuals; Rule 4.6.7 – Customer Identification Documentation – Multiple Individual Applicants

Customer identification documentation relates to two distinct elements, namely the:

a. the customer, and
b. the nature of the customer's economic activity.

Customer identification documentation that the firm obtains in conducting CDD measures and ongoing monitoring for a customer needs to be recorded. This must include keeping and maintaining a record of how and when each of the steps of the CDD measures for a customer were satisfactorily completed by the firm. This applies in relation to a customer irrespective of the nature and risk profile of the customer.

When an applicant for business for a firm is an individual, and the individual's risk profile is low risk, the firm may satisfy the customer identification documentation requirements by confirming the individual's name and likeness by seeing:

a. an official government-issued document that has the individual's name and a photograph of the individual, such as a valid Qatari ID card, passport or driving licence with a photograph, or
b. a document from a reliable, independent source that bears the individual's name and a photograph of the individual, or
c. other documents from reliable, independent data sources.

In the event that two or more individuals are joint applicants for business for a firm, the identities of each individual must be verified.

3.6 Reporting and Record-Keeping

3.6.1 Reporting Requirements

Learning Objective

4.3.10 Know the reporting requirements of a firm

Rule 5.1.1 – Unusual and Inconsistent Transactions; Rule 5.1.2 – Internal Reporting Policies; Rule 5.1.3 – Access to MLRO; Rule 5.1.4 – Obligation of Officer or Employee to Report to MLRO; Rule 5.1.6 – External Reporting Policies; Rule 5.1.7 – Obligation of Firm to Report to FIU; Rule 5.2.1– What is Tipping Off? Rule 5.2.2 – Firm Must Ensure No Tipping Off Occurs; Rule 5.2.3 – Information to Suspicious Transaction Reports to be Safeguarded

A transaction that is unusual or inconsistent with a customer's known legitimate business and risk profile does not of itself make it suspicious, and the key to recognising unusual or inconsistent transactions is for a firm to know its customers well enough.

A firm must consider the following matters in deciding whether an unusual or inconsistent transaction is a suspicious transaction:

a. The transaction has no apparent or visible economic or lawful purpose.
b. The transaction has no reasonable explanation.
c. The size or pattern of the transaction is out of line with any earlier pattern or with the size or pattern of transactions of similar customers.
d. The customer has failed to give an adequate explanation for the transaction or to fully provide information about it.
e. The transaction involves the use of a newly established business relationship or a one-off transaction.
f. The transaction involves the use of offshore accounts, companies or structures that are not supported by the customer's economic needs.
g. The transaction involves the unnecessary routing of funds through third parties.

Internal Reporting

A firm must have clear and effective policies, procedures, systems and controls for the internal reporting of all known or suspected instances of money laundering or terrorist financing. These policies, procedures, systems and controls must enable the firm to comply with the AML/CFT Law and the rules in relation to the prompt making of internal suspicious transaction reports to the firm's MLRO.

A firm must ensure that all its officers and employees have direct access to the firm's MLRO and that the reporting lines between them and the MLRO are as short as possible. Any officer or employee of a firm must promptly make a suspicious transaction report if, in the course of their office or employment, they know, suspect, or have reasonable grounds to know or suspect that funds are:

a. the proceeds of criminal conduct
b. related to terrorist financing, or
c. linked or related to, or are to be used for, terrorism, terrorist acts or by terrorist organisations.

This report must be made:

a. irrespective of the amount of any transaction relating to the funds
b. whether or not any transaction relating to the funds involves tax matters, and
c. even though:
   - no transaction has been, or will be, conducted by the firm in relation to the funds, and
   - for an applicant for business – no business relationship has been, or will be, entered into by the firm with the applicant, or
   - for a customer – the firm has terminated any relationship with the customer, and
   - any attempted money laundering or terrorist financing activity in relation to the funds has failed for any other reason.

If the officer or employee makes a suspicious transaction report to the MLRO (the internal report) in relation to the applicant for business or customer, they must also report every subsequent transaction of the applicant or customer (whether or not the transaction is of the same nature as the transaction that gave rise to the internal report) until the MLRO tells the officer or employee not to do so.

An officer or employee who fails to make a report under this rule may commit an offence against the AML/CFT Law, and may also be dealt with under the Financial Services Regulations' Disciplinary and Enforcement Powers.

External Reporting

A firm must have clear and effective policies, procedures, systems and controls for reporting to the FIU all known or suspected instances of money laundering or terrorist financing. The policies, procedures, systems and controls must enable the firm to:

- comply with the AML/CFT Law and the relevant rules in relation to the prompt making of suspicious transaction reports to the FIU, and
- co-operate effectively with the FIU and law enforcement agencies in relation to suspicious transaction reports made to the FIU.

The firm must promptly make a suspicious transaction report to the FIU and ensure that any proposed transaction relating to the report does not proceed without consulting with the FIU if the firm knows, suspects, or has reasonable grounds to know or suspect, that funds are:

- the proceeds of criminal conduct
- related to terrorist financing, or
- linked or related to, or to be used for, terrorism or terrorist acts or by terrorist organisations.

The report must be made on the firm's behalf by the MLRO or their deputy, or, if the report cannot be made by either of them for any reason, by a person who is employed at the management level by the firm, or by a legal person in the same group who has sufficient seniority, experience and authority to investigate and assess internal suspicious transaction reports.

The firm must make the report:

- whether or not an internal suspicious transaction report has been made in relation to the funds
- irrespective of the amount of any transaction relating to the funds
- whether or not any transaction relating to the funds involves tax matters, and
- even though:
    - no transaction has been, or will be, conducted by the firm in question
    - for an applicant for business – no business relationship has been, or will be, entered into by the firm with the applicant, or
    - for a customer – the firm has terminated any relationship with the customer, and
    - any attempted money laundering or terrorist financing activity in relation to the funds has failed for any other reason.

The report must include a statement about:

- the facts or circumstances on which the firm's knowledge or suspicion is based or the grounds for the firm's knowledge or suspicion, and
- if the firm knows or suspects that the funds belong to a third person, the facts or circumstances on which that knowledge or suspicion is based or the grounds for the firm's knowledge or suspicion.

If a firm makes a report to the FIU under this rule about a proposed transaction, it must immediately inform the Regulator.

Tipping Off

Tipping off, in relation to an applicant for business or a customer of a firm, is the unauthorised act of disclosing information to the customer that will lead the applicant, customer or third party to believe that they are under investigation relating to money laundering or terrorist financing, or will be reported on a suspicious transaction report. This may prejudice any investigation and the prevention or detection of offences, the apprehension or prosecution of offenders, the recovery of proceeds of crime, or the prevention of money laundering or terrorist financing.

A firm must ensure that no tipping off occurs and that:

- its officers and employees are aware of, and sensitive to:
    - the issues surrounding tipping off, and
    - the consequences of tipping off, and
- it has policies, procedures, systems and controls to prevent tipping off.

If a firm has reason to believe that an applicant for business or a customer may be tipped off, they may file a suspicious transaction report to the FIU instead of undertaking further CDD or monitoring. In this event, the MLRO must make and keep records to demonstrate the grounds for the belief that conducting CDD measures or ongoing monitoring would have tipped off an applicant for business or a customer.

A firm must take all reasonable measures to ensure that information relating to suspicious transaction reports is safeguarded and, in particular, that information relating to a suspicious transaction report is not disclosed to any person (other than a member of the firm's senior management) without the consent of the firm's MLRO. The MLRO must not consent to information relating to a suspicious transaction report being disclosed to a person unless they are satisfied that disclosing the information to the person does not constitute tipping off. If the MLRO gives consent, they must make and keep records to demonstrate how they were satisfied that disclosing the information to the person did not constitute tipping off.

4. Client Money

Learning Objective

4.4.1 Understand the basic rules concerning a firm's dealings with its customers' money

INMA Rules 5.1.2–4, 5.2.1–4 and 5.4.1

An investment business firm is an investment management and advisory (INMA) firm authorised to deal in investments as an agent, manage investments, operate collective investment schemes, and/or provide custody services.

Any other INMA firm is an advisory firm. The authorisation of an advisory firm permits it to carry on one or more of the following regulated activities:

1. providing scheme administration
2. arranging deals in investments
3. arranging the provision of custody services
4. arranging financing facilities, and/or
5. advising on investments.

Advisory firms may not hold client money. In the event they do receive client money, the advisory firm must immediately return these funds to the customer, providing none of the exceptions outlined in section 4.1 apply to the money. In addition, the advisory firm must keep and maintain a record of each instance in which it has received (and refunded) client money and, in the case where payment has been made by cheque, a copy of the cheque. This record must include the customer name, date on which the money was received, and the date on which the money was returned to the customer.

The client money rules do not apply to the independent entity, or the **operator**, of a QFC scheme that is not a private placement scheme in relation to safeguarding the scheme property.

An investment business firm is deemed to hold money, if the money is held directly by the firm, in an account in the name of the firm, or by a person (or in an account in the name of a person) controlled by the firm.

Client money of an investment business firm is money received from, or held for, a customer in the course of, or in connection with, conducting investment and advisory business in, or from, the QFC. In addition, client money is money the firm treats as client money in accordance with the client money rules outlined in this section. The exceptions are outlined in section 4.1 below.

An eligible bank is a QFC bank, or an entity incorporated in a jurisdiction outside the QFC that meets all the following criteria:

1. It is regulated as a bank, and principally regulated for prudential purposes, by an overseas regulator in the jurisdiction.
2. The QFCRA has not, by notice, declared that this definition does not apply to the jurisdiction.
3. It is required to prepare audited accounts.
4. It has assets of QR35 million or more.
5. It has surplus revenue over expenditure for the last two financial years.
6. The last annual audit report is not materially qualified.

An eligible third party is an authorised firm (other than an eligible bank), or an entity for which all of the following requirements are satisfied:

1. It is authorised (however described) under the law of a jurisdiction outside the QFC to carry on any business of a similar nature to investment and advisory business.
2. It is principally regulated for prudential purposes by an overseas regulator in the jurisdiction.
3. The QFCRA has not, by notice, declared that this definition does not apply to the jurisdiction.

4.1 Money That is not Client Money

Learning Objectives

4.4.2 Understand the circumstances where money is not client money

Rules 5.3.1–7

4.4.6 Understand the situations in which the client money rules do not apply

Rules 5.6.1–3

Money is not client money of an INMA firm in the event it is, or becomes, immediately payable by the customer to the firm for the firm's own account. This occurs either because the money is paid by the customer to the firm, or deducted by the firm from money held by it for the customer in settlement of the following payments by the customer to the firm:

a. a fee or charge
b. amount paid by the firm for the purchase of an investment or in settlement of a margin payment on behalf of the customer, or
c. unpaid purchase of an investment delivered to the customer or credit to their account.

The remainder of this section outlines other instances in which money is not client money.

4.1.1 Cheques to Regulated Financial Institutions

Cheques received from customers payable to a regulated financial institution are not considered to be client money if they are not collected or paid in the QFC, but sent, in accordance with the customer's instructions, to the financial institution as soon as practicable but no later than two business days after receipt.

The firm needs to record and copy each cheque and include the customer's name, name of the financial institution, date of receipt of the cheque and the date it was sent on to the financial institution. For this purpose, a regulated institution is an entity that is not an authorised firm but is authorised or licensed in a jurisdiction other than the QFC to carry out a financial service.

4.1.2 Client Protection Rules do not Apply

Client protection rules do not apply to money held on behalf of a business customer, providing the customer has opted out of the protection, and the firm has notified the customer in writing that the customer's money will:

1. not be subject to the client protection rules
2. not be segregated from the firm's money
3. rank only as a general unsecured creditor of the firm for that money.

In addition, if the firm proposes to provide discretionary investment management services to the customer, the notification needs to incorporate that the firm will have significant control over the amount of unsecured **credit risk** that the customer is taking on the firm, and that the customer should consider that risk carefully before commencing business on that basis with the firm.

The notification may be part of the firm's **terms of business**.

Unless the firm agrees to treat funds held on behalf of a client who is a market counterparty under client protection rules, these funds are not subject to client money protection rules. Business customers may opt out of the client money protection rules by written notice to the firm.

Client money protection rules do not apply to money received in relation to delivery versus payment (DvP) transactions, undertaken through commercial settlement systems as long as they meet the following requirements:

1. the firm has elected not to treat money from that customer as client money
2. the client has provided written notification to opt-out of client money protection rules (which may be in the firm's terms of business)
3. in the event of a customer purchase, the money will be due to the firm within one business day after delivery of the investment, and
4. in the event of a customer sale, the money will be due to the customer within one business day after the customer delivers the investment.
5. Where the firm has elected not to treat money from that customer as client money, the client money protection still applies.
6. In the event the delivery or payment by the firm does not occur within three business days after the date of the payment or delivery of the investments by the customer.

4.1.3 Money Held by QFC Bank

Money held in an account with a QFC bank is not considered to be client money of the firm as long as the firm has notified the customer in writing that their money will be held by the QFC bank as a bank and not a trustee, and their funds will not be subject to client money protection rules. Such a notification may be included in the firm's terms of business.

4.1.4 Money Held in a Guaranteed Account

Money held in an account with an INMA firm itself is not client money if all of the firm's obligations to repay the money to the customer have been fully, unconditionally and irrevocably guaranteed by an eligible bank. The firm must notify the customer in writing that the repayment of their money has been fully guaranteed by an eligible bank and that the money is not subject to client protection rules. A copy of the guarantee from the bank needs to be provided.

Such a notification may be included in the firm's terms of business.

4.1.5 Money from Associates

Money received from an associate of an INMA firm is not client money of the firm unless the associate notifies the firm in writing that the money is to be held by the firm on behalf of a person who is not part of the same corporate group as the firm.

4.1.6 Money for Issue of Redemption of Units in QFC Schemes

Money received in relation to the **issue** of redemption units in QFC schemes in a DvP transaction is not client money if the money is received in relation to the firm's obligation to issue the units. However, funds will be considered client money in the event the price of the units has not been determined by the close of business of the business day after the firm has received the money. In addition, money held in the course of redeeming the units is not considered to be client money as long as the redemptions are paid to a customer within the time allowed by the rules on collective investment schemes (COLL).

4.2 Bank Accounts

Learning Objective

4.4.3 Understand client money rules as they apply to client bank accounts

Rules 5.5.1–4

A client bank account of an investment business firm is an account held by the firm with an eligible bank for the purpose of receiving client money from one or more customers. A firm needs to open at least one client bank account before it is permitted to receive any client money. The account must be a current or deposit account in the name of the investment firm that maintains the account, and must have the term 'client bank account' in its name. The account name must sufficiently distinguish it from an account in which money belonging to the firm is held.

Before an investment business firm can pay client money into the account it must make sure that the money will be segregated from the firm and will not form part of the firm's assets in case of insolvency. In addition, the firm needs to make sure the bank is suitable to hold the money in the account and the bank has given confirmation in writing that:

- All money in the account is held by the firm as trustee.
- The bank is not entitled to combine the account with any other account or to exercise any right to off-set, counterclaim, or any security interest against money in the account for any debt or other obligation owed to it on any other account for the firm.
- The name of the account includes the words 'client bank account' and sufficiently distinguishes it from an account that holds money belonging to the firm.

When assessing an eligible bank's suitability to hold money in the account, the firm must consider all relevant circumstances including credit rating, capital and financial resources, regulatory and insolvency regimes of the jurisdiction in which the bank is located, reputation, and regulatory status and history.

4.3 Holding Client Money

Learning Objectives

4.4.4 Understand the terms under which client money is held by a firm

Rules 5.5.5–10, 5.5.13–14, and 5.5.17–19

4.4.7 Understand the rules relating to the payment of funds out of clients' bank accounts

Rules 5.7.1–3

Client money held by an investment firm is subject to a trust in which the firm is the trustee. The money is held for the purpose of (and on the terms of) client money protection and client money distribution. The money is held for customers in accordance with their respective interests and, when the firm fails, the money will be used for payment of costs attributable to the distribution of the money. Any remaining money is held for the firm itself.

The firm has a fiduciary duty to the client money until the money is no longer considered to be client money as a result of it being paid to discharge fiduciary duties. Fiduciary duties do not cease if the money is transferred to an eligible third party. An INMA firm authorised to hold client money must open at least one client bank account prior to receiving client money (see section 4.2 for rules applying to bank accounts).

All client money needs to be promptly and accurately accounted for, and the firm must have procedures in place covering the following:

1. identification and tracing of client money received or held
2. prompt recording of the receipt of all client money
3. ensuring client money is not mixed with other money (except where permitted), and
4. producing accurate accounting records showing how much client money has been transferred to customers and other persons.

The firm must not pay its own money into a client bank account unless it is prudent to do so to protect client money in the account. Money that does not belong to the client or the firm may only be held in the account if the money is:

1. a minimum sum required to open or maintain the account
2. related to mixed remittances and will only be in the account temporarily
3. excess interest not paid out of the account, or
4. to meet a shortfall.

Any money paid into a bank account will become client money for the purpose of client money protection and distribution rules. Client money received in a currency other than the currency of the account needs to be converted into the currency of the account by the firm within one business day after receipt of the funds. Firms should not speculate with client money on the currency markets.

4.3.1 Payment of Client Money into Client Bank Accounts

Any client money held by the firm needs to be paid into a client bank account as soon as possible and, at the latest, one business day after receipt of the money. When the funds are received via automated transfer, the firm needs to ensure the money is transferred directly into a bank account. In the event the funds are transferred into the firm's account, the firm needs to transfer the same to a client bank account within one business day after receipt.

In case of a mixed remittance (partly client money and partly other money), the firm must pay the full amount into a client bank account and subsequently transfer the part that is not client money within one business day after the day on which it would normally expect the remittance to be cleared. The firm must take reasonable steps to ensure it is notified promptly when receiving client money in the form of client entitlements such as dividend, coupon payment, or other similar types of distributions.

Client money received in the form of a cheque does not have to be paid into the client bank account until such time as the funds have been received, or in case the money, is temporarily held by the firm before forwarding it to a person nominated by the customer. A firm needs to be able to identify client money received by any means and promptly record the receipt.

4.3.2 Systems, Controls, and Record-Keeping

Excess client money must not be held in a **third-party account** longer than absolutely necessary to effect the relevant transaction or satisfy the relevant obligation. In addition, systems and controls need to be in place to identify money in a client bank account or third-party account that is not supposed to be there, and to transfer such money out of the account without delay.

The firm needs to maintain records to enable it to demonstrate to auditors and the Regulatory Authority that it complies with client money rules and to explain all entries held or controlled under these rules.

A master list of every client bank account and third-party account needs to be maintained detailing the name of the account, account number, location of the account, whether the account is open or closed, and the date on which the account was opened and, if applicable, closed. These records need to be maintained for at least six years after the closure of the account.

4.3.3 Payments out of Client Bank Accounts

The firm must have procedures in place to ensure every payment out of a client bank account is undertaken within the rules and is authorised. A firm may only pay money out of a client bank account under the following circumstances where the money:

a. is not client money
b. has been paid into the account in error
c. is to be paid into another client money account of the firm
d. is to be paid immediately to a customer or the duly authorised representative of a customer
e. is to be paid into the customer's own account or a client bank account of an eligible third party as part of (a series of) transfers to eligible third parties
f. is to be paid on the instruction, or with the consent, of a customer (eg, for professional fees or to meet an obligation of the customer)
g. is payable to the firm (see section 4.3 above), or
h. is surplus to be paid to the firm.

Client bank accounts must never be overdrawn, and payments should not be made for a customer before sufficient funds have been paid into the account by (or for) the customer.

Once client money is paid out of a client bank account it ceases to be client money if it is paid to a customer or their duly authorised representative, on the instruction of the customer, or into the customer's own account. In the event the money is payable to the firm or a surplus, the money may be paid into the firm's own account.

Any money paid out by cheque must remain in the account and continues to be treated as client money until the cheque is presented to the customer's bank and cleared by the paying agent.

Firms are not permitted to use client money for any other purpose than those outlined in this section.

4.4 Use of Other Entities

Learning Objective

4.4.5 Understand the rules relating to the use of other entities

Rules 5.5.11–12 and 5.5.15–16

Any client money received by an approved representative or non-QFC intermediary of the firm needs to be paid into a client bank account of the firm as soon as possible, and at the latest within one business day after it is received. It is the responsibility of the firm to take reasonable steps to ensure this happens.

When client money is segregated in an account denominated in a currency different to that in which the funds are received, the firm needs to ensure the amount held is adjusted each day so that it remains at least equal to the amount received in the original currency at the previous day's closing spot exchange rate.

When assessing the suitability of an **eligible third party** the firm must consider all relevant circumstances including, but not restricted to:

a. credit rating, capital and financial resources
b. regulatory and insolvency regimes of the jurisdiction in which the third party is located
c. reputation
d. regulatory status and history, and
e. other members of its corporate group and their activities.

Client money may only be paid into an account with an entity that is not an eligible bank if the entity is an eligible third party. The money must be used for (a series of) transactions for the customer concerned, or to meet an obligation of the customer. Any client money paid into a third party account needs to be segregated from the firm's assets and will not form part of the firm's assets in its insolvency. In addition, the firm needs to be satisfied the third party is, and remains, suitable.

Third-party accounts need to include the words 'client account' in their title. The eligible third party needs to be notified in writing that the money in the account is held by the firm as a trustee and may not be combined with any other account, to exercise a right to off-set or counterclaim. The firm needs to obtain a written acknowledgement from the third party to this effect. If this is not received within one month after the request, the firm may continue to hold client money with the third party providing they promptly give notice, in writing, to any customer the firm owes money to that the third party has not acknowledged the fact that they have no right to off-set or counterclaim. This notification needs to be printed on any subsequent statement sent to the client.

4.5 Notifications to Customers

Learning Objective

4.4.8 Understand the duties of a firm regarding notifications to a customer about client money and compliance with instructions

Rules 5.8.1–3

Notifications related to client money may be provided to customers via the firm's terms of business, or any other document.

An investment business firm needs to notify a customer before, or as soon as reasonably practicable after, the receipt of client money of the following:

- the money will be held by the firm as a trustee on the terms of the client money protection rules, and will be segregated from money belonging to the firm
- in the event the firm fails, the money will be subject to client money distribution rules
- whether interest is payable on the money and, if so, the associated terms and frequency
- despite the client money protection rules, the customer may be subject to an unsecured credit risk on the eligible bank or eligible third party to whom the money is paid, and
- if the firm intends to pay the money into a client bank account with an eligible bank or eligible third party within the same corporate group as the firm, this must be clearly stated in addition to the name of the eligible bank or third party.

In the event the firm intends to pay the money into a client bank account outside the QFC, it must either obtain the customer's consent or notify the customer in writing that client money might be paid into a client bank account outside the QFC, and that legal, insolvency and regulatory regimes that apply to the account may be different from the QFC. In addition, the firm must notify the customer that if the bank were to fail, the money may be treated differently from the treatment in the QFC. An adequate explanation of the implications of holding money outside the QFC must be included in the notification.

When the customer of an investment firm instructs the firm in writing not to pay their client money into a client bank account outside the QFC, or with an eligible bank or third party that is part of the same corporate group as the firm, the firm must comply with these instructions from the date they were given or from the date specified by the customer in the notification.

4.6 Calculation and Reconciliation

Learning Objective

4.4.9 Understand the requirements for the calculation and reconciliation of a firm's client money resource and requirement

Rules 5.9.1–8

A client money (CM) calculation needs to be carried out at least once per month. The CM calculation is to ensure that as at close of business the day before (the cut-off date), the firm's CM resource is at least equal to its CM requirement. The CM calculation is outlined below:

Step 1

Calculate the firm's CM resource by adding the following amounts (as at the cut-off date):

- the amount in the firm's client bank accounts
- the amount transferred to eligible third parties
- any amount immediately payable to the firm by customers and other persons.

Step 2

To calculate the firm's CM requirement, add the following amounts of client money (as at the cut-off date):

- unearned fees or unearned commissions payable to the firm
- the amount transferred to eligible third parties
- any money held by **approved representatives** or non-QFC intermediaries of the firm
- any amounts immediately payable to customers and other persons by the firm.

Note that under Rule 5.7.1(3), an amount paid by cheque must remain in the client bank account until the cheque is presented to the customer's bank and cleared by the paying agent.

Step 3

Compare the CM resource and the CM requirement to see whether they are equal.

Within a reasonable period after carrying out the CM calculation, the firm must match its CM resource to its CM requirement for each customer, and achieve a match for a majority of its customers and transactions within a reasonable period after carrying out the CM calculation.

A shortfall occurs if the CM resource is less than the CM requirement, in which case the firm must pay money into the associated client bank account by close of business on the day the shortfall is discovered.

If the CM resource is greater than the CM requirement, the firm has a surplus which must be transferred out of the client bank account. The payment needs to take place by close of business on the day the surplus is discovered, unless the firm considers it to be prudent to keep the money in the account to protect other money in the account. This may occur, for example, when there are unreconciled items such as undrawn cheques.

The balance of each client bank account statement needs to be reconciled with the balance recorded by the firm within ten business days after the day the CM calculation is carried out. Reconciliation results need to be reviewed by an employee with sufficient seniority who must state in writing whether the calculations or reconciliations were carried out in accordance with the rules specified in this section.

With the exception of discrepancies caused by timing differences between the accounting systems of the firm and the bank, any discrepancies need to be investigated and rectified. Where appropriate, any discrepancies need to be rectified by paying money into or out of the client bank account as soon as reasonably practicable, but at least within one business day after discovery of the discrepancy.

The firm must immediately notify the Regulatory Authority of any discrepancies that are not rectified within one business day after they are discovered, if the firm does not carry out a calculation, reconciliation or review, and if they are unable to pay in a shortfall by the close of business on the day it is discovered.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What are the general requirements for data controllers in relation to the processing of personal data?
Answer Reference: Section 1.1

2. What is the definition of 'sensitive personal data'?
Answer Reference: Section 1.2

3. What information must be supplied with the application for a permit for the transfer out of the QFC of personal data?
Answer Reference: Section 1.3

4. What information should the data controller provide to the data subject on collection of personal data?
Answer Reference: Section 1.4

5. What are the eight types of behaviour that give rise to the offence of market abuse?
Answer Reference: Section 2

6. What are the six main situations which constitute a contravention of market abuse regulations?
Answer Reference: Section 2.1

7. What are the six anti-money laundering/combating the financing of terrorism (AML/CFT) principles?
Answer Reference: Section 3

8. What is the definition of money laundering?
Answer Reference: Section 3.1

9. What is the definition of a 'customer'?
Answer Reference: Section 3.1.1

10. What are the minimum requirements for AML/CFT policies?
Answer Reference: Section 3.2.2

11. What are the responsibilities of the money laundering reporting officer (MLRO) in the event of tipping off?
Answer Reference: Section 3.6.1

12. What are the requirements imposed on officers and employees when reporting to the MLRO?
Answer Reference: Section 3.6.1

13. When does a relevant person need to file a suspicious transaction report?
Answer Reference: Section 3.6.1

14. What is 'tipping off'?
Answer Reference: Section 3.6.1

15. When do client rules not apply?
 Answer Reference: Section 4.1.2

16. What is the definition of a 'client bank account'?
 Answer Reference: Section 4.2

17. Under what circumstances, may money that does not belong to the client or the firm be held in a client bank account?
 Answer Reference: Section 4.3

18. Describe the steps in the client money (CM) calculation.
 Answer Reference: Section 4.6

Chapter Five

Customer and Investor Protection Rules

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This syllabus area will provide approximately 16 of the 75 examination questions

Introduction

The Conduct of Business Rulebook (COND) outlines the conduct obligations of authorised firms and includes rules regarding advertisements. Candidates are required to know or understand issues such as the basic client categories, opting-up of clients, regulations regarding individuals approved to undertake customer-facing functions and those regarding approved representatives and advertisements.

1. Customers and Categorisations

Learning Objective

5.1.1 Know who is a customer of an authorised firm

Rule 1.2.1 – Who is a Customer of an authorised firm?; Rule 1.2.2 – Who is a retail customer of an authorised firm; Rule 1.2.3 – Business customers – bodies corporate with certain levels of assets or turnover; Rule 1.2.4 – Business Customers – bodies corporate – credit arrangement business; Rule 1.2.5 – Business customers – collective investment schemes: Rule 1.2.6 – Business customers - trustees: Rule 1.2.7 – Business customers in relation to insurance business; Rule 1.2.8 – Business customers – customers opted-up under Rule 3.3.2; Rule 1.2.9 – Business customers – customers opted-up under COND; Rule 1.2.10 – Who is an eligible counterparty of an authorised firm

5.1.2 Know the principles of fair treatment of customers

Rule 2.1.1 – Application; Rule 2.1.2 – The Principles; Rule 2.1.3 – Consequences for employees who fail to comply

5.1.3 Know the firm's obligations regarding customer classifications

Rule 3.3.1 – Customer classification – general obligation; Rule 3.3.2 – customer classification – opting up; Rule 3.3.3 – Determination of customers' net assets; Rule 3.3.4 – Assessing customers' relevant knowledge, experience and understanding; Rule 3.3.5 – Agreement required before opting up a customer; Rule 3.3.6 – Customer classification – systems and controls

A customer of an authorised firm is a person to whom the firm, provides, has provided, or intends to provide, services or products in conducting a regulated activity, or a person who asks his firm to provide such a service. A customer can be either a:

- retail customer – a customer who is not a business customer or an eligible counterparty:
- business customer, or
- eligible counterparty.

These categories are mutually exclusive. A customer of an authorised firm that is an eligible counterparty is not a business customer even if they would otherwise qualify as a business customer under the rules outlined in this section.

1.1 Business Customer

There are a number of criteria that determine whether or not a customer of an authorised firm is a business customer.

<table>
<tr><th>Category</th><th>Criteria</th></tr>
<tr><td rowspan="2">Level of Assets or Turnover</td><td>Body corporate (individually or with a holding company, or subsidiary) currently, or during the preceding two years, with:
• called-up share capital or net assets of at least QR18 million, or
• annual net turnover of at least QR30 million.</td></tr>
<tr><td>Partnership or unincorporated association that has (or, at any time during the previous two years, has had) assets of QR18 million or more (calculated as the total value of the cash and investments that form part of the trust's assets, without deducting its liabilities):
• net assets of at least QR18 million (in case of a limited partnership calculated without deducting loans owing to any of the partners), or
• annual net turnover of at least QR30 million.</td></tr>
<tr><td>Credit Arrangement Business</td><td>Body corporate meeting all of the following:
• has (or, at any time during the previous two years, has had) net assets of at least QR10 million, and
• regulated activities they will undertake are limited to arranging credit facilities and/or providing credit facilities, and
• the credit facility arranged or provided does not have embedded derivatives or attached hedging instruments, and
• credit facility arranged or provided is only to be used in the business activities of:
  ◦ the customer,
  ◦ another body corporate that is a member of the same group, or
  ◦ a joint venture to which the customer (or a member of the same group) belongs.</td></tr>
<tr><td>Collective Investment Scheme</td><td>No other criteria apply.</td></tr>
<tr><td>Trustee</td><td>Has (or, at any time during the previous two years, has had) assets of at least QR18 million calculated as the total value of cash and investments without deduction of liabilities.</td></tr>
<tr><td>Insurance</td><td>The business is an insurance business and/or insurance mediation business in relation to non-investment insurance contracts, and the customer is:
• a person other than an individual, or
• an individual acting on behalf of their trade, business or profession.</td></tr>
</table>

1.1.1 'Opting Up'

Customers who would ordinarily be classified as retail customers may be 'opted up' to business customers in relation to one or more regulated activities and specified products (with the exception of insurance business). The customer may only be opted up to a business customer if the customer has so requested, and the firm is satisfied that the customer meets the following requirements:

1. the customer has at least QR4 million in net assets (excluding their primary family residence, but including assets in which they have a beneficial interest), and
2. the customer is assessed to have sufficient knowledge, experience, and understanding of the relevant financial markets, products, and transactions as well as the associated risks to justify the firm dealing with them without the benefit of retail protections (see also section 1.4 below).

In the event a customer was opted up to a business customer under the COND rules (repealed January 2020), and the firm has not revoked the categorisation, the customer will remain as a business customer. If the customer was classified as a business customer only in relation to one or more particular regulated activity or specified product, they remain a business customer in relation to those activities and products. If the customer was classified as a business customer in reliance of a statement of net assets, the firm must, at least annually, obtain confirmation of the statement from the customer.

1.2 Eligible Counterparty

Eligible counterparties are any of the following:

a. an authorised firm
b. a regulated financial institution
c. an eligible clearing house or eligible exchange (section 1.2.10)
d. a government, government agency, central bank, or other national monetary authority of any jurisdiction
e. a state investment body, or a body responsible for the management of public debt
f. a supranational organisation whose membership consists of jurisdictions, central banks, or national monetary authorities.

An eligible clearing house is a clearing house that can clear transactions on a regulated exchange and is established in a jurisdiction outside the QFC, for which the QFCRA has not declared that the definition does not apply. An eligible exchange is a regulated exchange for which the QFCRA has not declared that the definition does not apply to the jurisdiction in which the exchange is established.

1.3 Fair Treatment of Customers

All authorised firms need to apply the following principles in all dealings with their customers including eligible counterparties:

1. Act honestly, fairly, independently, and professionally in the best interest of customers, and in the interest of market integrity.
2. Act with due skill, care, and diligence in the best interest of customers.
3. Do not recklessly, negligently, or intentionally mislead a customer about real or perceived advantages or disadvantages of a product or service.
4. Have the resources, policies, procedures, systems, controls, compliance checks, and employee training in place necessary for compliance with all rules and make effective use of all resources, policies, procedures, systems, and checks.
5. Seek information about each customer that is appropriate to the product or service the customer wants, and ensure that the product or service is suitable in light of the information the customer has provided.
6. Fully disclose all significant information about the product or service the customer wants, particularly related to fees and charges, in plain English and in an easy to understand format:
7. Avoid conflicts of interest.
8. Keep customer information confidential.
9. Correct errors and deal with complaints speedily, efficiently, and fairly.
10. Do not exert undue pressure or influence on a customer.
11. Ensure that also in case of outsourcing these rules are complied with.

Any employee that fails to comply with the policies, procedures, systems, and controls must be subject to appropriate performance management consequences.

1.4 Customer Classification and Opting Up

The appropriate classification of a client will dictate how an authorised firm will need to act in any dealings with, or for, a client from the beginning of the relationship. A customer may be classified as a retail customer, a business customer, or an eligible counterparty.

Retail customers are perceived to be the most vulnerable in terms of their understanding of the markets or the services being provided to them, and there are, therefore, restrictions on the provision of investment business by authorised firms to retail clients. Eligible counterparties, on the other hand, are more likely to have a much better understanding of the markets and do not expect to receive the same protections provided to retail customers.

The rules require that, before conducting business with or for a client, an authorised firm must take reasonable steps to establish the classification of a customer (retail, business, eligible counterparty). If a firm has any doubts about a client's classification, then it must classify the customer as a retail customer.

If an authorised firm is dealing with a client who is an individual in relation to a contract of insurance that will cover the client in both a private and business capacity, the firm must classify the client as a retail customer.

As noted in section 1.1, a customer who is a retail customer may be opted up to a business customer in relation to one or more regulated activities and specified products (with the exception of insurance business). Opting up is requested by the customer and can only be done if they meet both of the following requirements:

1. the customer has at least QR4 million in net assets (excluding their primary family residence, but including assets in which they have a beneficial interest), and
2. the customer is assessed to have sufficient knowledge, experience, and understanding of the relevant financial markets, products, and transactions as well as the associated risks to justify the firm dealing with them without the benefit of retail protections.

1.4.1 Assessing Net Assets

In the event the firm cannot obtain sufficient evidence showing that the customer meets the minimum net asset requirement, they may rely on a signed statement by the customer confirming that the value of their net assets meets the requirements. This statement is in accordance with a form prepared by the firm and must include the following warning:

'If you misrepresent your financial position in this statement, you might receive unsuitable advice, or buy a financial service or product that is not in your best interests'.

This statement must be in a prominent place and as close as possible to the space for the customer's signature. In addition, the form also needs to either explain the basis on which the customer is proposed to be classified as a business customer, or display a statement confirming the firm has provided, on a durable medium, the basis on which the customer is proposed to be classified as a business customer, and the protections provided to retail customers that are not available to business customers.

In case the firm has reasonable doubt as to the accuracy of the statement, they should not classify the customer as a business customer. Confirmation of the statement must be obtained at least annually.

1.4.2 Assessing Knowledge, Experience, and Understanding

The following needs to be considered in the assessment of whether or not a customer has sufficient knowledge, experience, and understanding of the relevant financial markets, products, and transactions as well as the associated risks:

1. Knowledge and understanding of the markets, products, transactions, and associated risks:
2. Whether they have been active in those markets, products and transactions and for how long:
3. Frequency of their dealing in the markets, products, and transactions and to what extent they have relied on the firm's advice in this respect:
4. Whether they are professionally involved (via employment or otherwise) in those markets, products and transactions, and for how long:
5. Size and nature of the transactions undertaken by them or for them in those markets:
6. Whether they rely on independent advice or judgement of another authorised, firm regulated financial institution in relation to the relevant regulated activities.

The assessment must be documented including any supporting evidence.

1.4.3 Agreement before Opting Up

Prior to opting up a customer to a business customer, the firm must provide, on a durable medium, an explanation of the basis on which the customer is proposed to be classified as a business customer, and the protections provided to retail customers that are not available to business customers. The explanation must be simple and user friendly. In addition, the customer must be given a reasonable period to consider the implications of opting up. An agreement to be opted up must be obtained from the customer on a durable medium.

1.4.4 Systems and Controls

Firms must have appropriate checks in place within their systems and controls to verify a customer's classification is appropriate. Classifications must be reviewed at least annually for the duration of the relationship between the firm and the customer.

2. Authorised Firms' Obligations

2.1 Reliance on Information and Exclusion or Restriction of Liability

Learning Objective

5.2.1 Know the rules regarding the reliance on others and the restriction of liability

Rule 3.4.1 – Reliance on Information Provided by Others; Rule 3.4.2 – Reliance on Others to Give Information to Customers; Rule 3.4.3 – Exclusion or Restriction of Liability

2.1.1 Reliance on Information

In gathering information, there are instances in which an authorised firm may need to rely on information obtained from others. For example, to enable an authorised firm to classify a client correctly, it is reasonable for an authorised firm to rely on this information if:

1. the information provided is in a durable medium:
2. the firm has reasonable grounds to believe that the person who provided the information was competent to provide it, and
3. the firm was not aware, and it is reasonable for them not to have been aware, of anything that would give it reasonable grounds to question the accuracy of the information.

In the event that the authorised firm is required to give information to a customer, the firm must give the information directly to the customer and not to another person, unless the customer has given an instruction in a durable medium requiring or allowing the firm to give the information to the other person. An authorised firm must, however, not seek to exclude or restrict, any duty or liability to a customer that arises under the regulatory system of the QFC.

2.2 Conflicts of Interest

Learning Objective

5.2.2 Know the rules regarding dealing with conflicts of interest and material interests

Rule 3.5.1 – Meaning of material interest; Rule 3.5.2 – Conflicts of interest and material interests – Policy; Rule 3.5.3 – Conflicts of interest and material interests – Management; Rule 3.5.4 – 'Decline to Act' or 'Disclose and Notify'; Rule 3.5.5 – Chinese Walls.

The need to establish systems and controls for the proper management of conflicts of interest and material interests is fundamental in carrying out an authorised firm's regulated activities.

The rules recognise that conflicts and potential conflicts of interest do arise and that business should be allowed to continue even though a conflict might exist, as long as that conflict or potential conflict is managed appropriately, so that no customer is prejudiced or treated unfairly.

A material interest in relation to a transaction is any interest of a significant or substantial nature in the transaction other than disclosable commission.

2.2.1 Policy and Management

The rules state that an authorised firm must have (and operate in accordance with) a policy on dealing with conflicts of interests and material interests. The policy must be appropriate to the nature, scale, and complexity of the firm's regulated activities. The policy needs to be approved by the firm's governing body and recorded in a durable medium. The policy must:

1. identify circumstances that constitute or may give rise to conflicts of interest or material interests that create a risk of damage to a customer's interest, and
2. set out systems and controls to identify and manage actual and potential conflicts of interest and material interests.

Although the rules regarding conflicts of interest relate to the regulated activities of the firm (or undertaken on the firm's behalf), the firm should also consider any circumstances that are related to unregulated activities.

The systems and controls must ensure that the authorised firm's clients are not treated unfairly or prejudiced because of any conflict of interest or material interest. An authorised firm must manage a conflict of interest or **material interest** by taking one or more of the following steps:

- establishing and maintaining an effective Chinese wall
- requiring employees to disregard conflicts of interest and material interest when advising a client or exercising discretion
- separately supervising employees whose main functions involve carrying out activities for, or providing services to, clients whose interests may conflict with those of the firm
- establishing measures to prevent or limit any person from exercising inappropriate influence over how an employee carries out services or activities

- establishing measures to prevent or control the simultaneous or sequential involvement of an employee in separate services or activities, if the involvement may impair the proper management of conflicts of interest
- taking alternative or additional steps necessary and appropriate to manage the conflict of interest or material interest.

In the event the authorised firm distributes their products to customers through an intermediary, the relationship with the intermediary should not be solely dependent on the introduction of a specified level of business. Employee remuneration for the provision or recommendation of products or services to customers should not impair the firm's obligation to act in the best interest or their customers, and to ensure the suitability of products and services for each customer. For example, contracts of employment with commission-only remuneration, or remuneration arrangements in which a basic salary is offset against commission earned, do not comply with this rule.

2.2.2 Decline to Act or Disclose and Notify

In any situation when a firm finds itself unable to manage a conflict or potential conflict, the firm must make the decision to not carry on with that business for the client.

The rules stipulate that an authorised firm must decline to act for a client if it has a conflict of interest or material interest, and cannot manage the conflict using the steps mentioned in section 2.2.1.

Before an authorised firm can (offer to) advise a customer about a transaction or before it deals in investments for a customer, the firm must:

- disclose any conflict of interest or material interest that it knows about, and
- notify the customer of any action it has taken to manage the conflict of interest or material interest using the steps mentioned in section 2.2.1.

The firm must also take reasonable steps to ensure the customer does not object to the firm's management of the conflict of interest or material interest.

Disclosures and notifications may be provided via the authorised firm's initial disclosure document or in a separate document.

2.2.3 Chinese Walls

The purpose of a 'Chinese wall' is to be effective in keeping operational or business activities separate: for example, keeping a sales force apart from an **investment research** function, which might otherwise create conflicts with customer interests.

The authorised firm must ensure effective Chinese walls are in place between different business areas of the firm in relation to information that could give rise to a conflict of interest or is open to abuse. Procedures for maintaining Chinese walls must be recorded in a durable medium and must set out the consequences of a breach of procedures. A copy of the procedure needs to be provided to every member of the firm's governing body and every relevant employee.

2.3 Inducements and Soft Commissions

Learning Objective

5.2.3 Know the obligations relating to inducements and soft commissions.

Rule 3.5.6 – Contingent selling and bundling; Rule 3.5.7 – Inducements; Rule 3.5.8 – Packaged Products; Rule 3.5.9 – Financial Assistance by Product Providers; Rule 3.5.10 Soft commission agreements

The key to meeting the requirements which forbid inducements to be paid or received lies in having the proper systems and controls in place, which include policies and procedures to ensure compliance.

An authorised firm must not make the sale of a product or service to a customer contingent on the purchase of another product or service. The firm may, however, offer additional products or services to existing customers that are only available to existing customers.

An authorised firm may not package two or more distinct products, each of which can be purchased separately from or through the firm, unless the firm can show that the bundling of those products and/or services results in a cost saving for the customer.

An authorised firm must ensure that neither it, nor any of its employees:

- offers, gives, solicits, or accepts any inducement, or
- directs or refers any actual or potential business to another person on its own initiative or on the instructions of an associate

if doing so is likely to conflict, to a significant extent, with any duty the firm owes to their customers.

An authorised firm's systems and controls must include policies and procedures to ensure compliance with the above. All members of the firm's governing body and all employees of an authorised firm must be provided with details of the firm's current policy and procedures regarding gifts, referrals and inducements.

2.3.1 Packaged Investment Products

An authorised firm must not enter into, and must take reasonable steps to ensure that no person acting on its behalf enters into, any of the following arrangements with another person in relation to a packaged investment product:

a. Volume overrides – the commission paid in relation to several transactions is more than a simple multiple of the commission payable in relation to a single transaction of the same kind.
b. An arrangement to pay more commission than the amount disclosed to the retail customer.
c. An agreement to indemnify the payment of commission on terms that would, or might give, an additional financial benefit to the recipient if the commission becomes repayable

d. An arrangement to pay commission otherwise than to the authorised firm responsible for a sale unless:
   - the authorised firm responsible for the sale has passed on its right to receive the commission to the recipient
   - the recipient is another authorised firm that has given advice on investments to the retail customer after the sale, or
   - the recipient is another authorised firm and the commission is paid after the sale of the packaged investment product by the first authorised firm in response to a direct offer advertisement communicated by that authorised firm to a customer of the recipient authorised firm.

2.3.2 Financial Assistance by Product Providers

This rule applies in relation to an authorised firm that holds itself out as offering investment advice to retail customers in relation to one or more packaged investment products.

A product provider must not acquire a direct or indirect holding in the capital or voting power of an authorised firm, or provide credit to such a firm, unless:

- the product provider and the firm are in the same corporate group
- for the provision of credit – the credit provided is for commission owing from the firm to the product provider under an indemnity commission clawback arrangement, or
- the holding is acquired, or credit is provided, on commercial terms, ie, terms objectively comparable to terms on which an independent person unconnected to a product provider would, taking into account all relevant circumstances, be willing to acquire the holding or provide credit.

To comply with this rule, any holding of, or credit provided by, a product provider's associate is taken to be held by, or provided by, the product provider.

2.3.3 Soft Commission Agreements

In the execution of transactions when conducting investment business on behalf of customers, commissions are likely to be generated emanating from these trades.

Soft commission agreements are generally defined as agreements under which an authorised firm directs transactions to a person, in exchange for which, the person provides goods or services to the authorised firm. Authorised firms must not enter into soft commission agreements unless the agreement is recorded in a durable medium. Any soft commission agreement is subject to the following conditions:

a. Any business transacted under the agreement must not conflict with the best interests of customers:
b. If the customer may be affected by the agreement, the customer must be made aware of the agreement and how it may affect them:
c. A copy of the agreement must be made available to a customer on request:
d. Goods or services received by the firm under the agreement must be used to provide services to customers:
e. Any changes in policy on the agreements must be promptly communicated to any affected customers.

2.4 Personal Account Transactions

Learning Objective

5.2.4 Know the rules relating to the personal account transactions

Rule 3.6.1 – Personal account transactions – systems and controls

A **personal account transaction** is a transaction by an authorised firm for the account of a relevant person.

In this context, a relevant person is:

- a member of the firm's governing body
- an employee or agent, unless they are not significantly involved in the firm's business and do not have information about that business and reasonable steps have been taken by the firm to ensure this.

Systems and controls need to be in place to ensure that in the event a relevant person enters into a personal account transaction, the transaction does not conflict with the firm's duties to their customers, and the firm is promptly notified of the transaction. In addition, the systems and controls must ensure that any relevant person who is not permitted to enter into personal account transactions are not able to:

- arrange for others to enter into the transaction
- communicate an opinion about the transaction knowing (or reasonably expected to know) the other person is likely to enter into the transaction, or to arrange for another person to do so.

This does not apply where a relevant person enters into a transaction in the proper course of their employment.

Systems and controls must ensure relevant persons are informed of the restrictions and general permissions related to personal account transactions via a notice in a durable medium. Compliance with the systems and procedures needs to be part of the relevant person's agreement with the institution (eg, employment contract or contract for services). The firm needs to maintain a restricted list of relevant investments about which the firm may have inside information. This list may only be accessed by relevant persons.

2.5 Error Handling

Learning Objective

5.2.5 Know the rules relating to the handling of errors

Rule 3.7.1 – Handling errors

Procedures must be in place for the effective handling of errors that affect customers. These procedures must be recorded in a durable medium and include at least the following elements:

1. identification of the cause of an error
2. identification of all affected customers
3. appropriate analysis of patterns of occurrence of the error including investigating whether it was an isolated incident
4. proper control of the correction process
5. escalation of errors to the compliance officer, risk management officer (if any) and senior management.

Errors must be resolved in a timely manner, and at the latest, within six calendar months after the date it was discovered. Where appropriate, refunds need to be provided to all affected customers including, where applicable, interest. Any system failures need to be corrected, and effective controls need to be implemented to prevent the error from occurring. All affected customers (including former customers) need to be informed of any error that has, or may, negatively affect the cost of the service or value of the product provided.

Errors affecting customers that are not resolved within 40 business days after they are discovered need to be reported to the Regulatory Authority within five business days after the 40 day period has ended.

A record needs to be maintained of every error that affects customers. The record must contain the following information:

a. Details of the error.
b. The date on which it was discovered.
c. An explanation of how it was discovered.
d. The period over which it occurred.
e. The number of customers affected.
f. The amount of money involved.
g. Whether the error has been resolved or not.
h. The date on which the error was resolved.
i. The number of customers to whom a refund was paid.
j. The total amount refunded.

All steps taken to resolve an error that affects at least one customer must be recorded including:

a. where any affected customer was dissatisfied with the outcome
b. where there were difficulties contacting affected customers, and
c. where a refund could not be paid.

2.6 Customer Complaints

Learning Objective

5.2.8 Understand the processes that an authorised firm must have in place to deal with customer complaints

Rule 3.8.1 – Who can make a complaint; Rule 3.8.2 – Internal complaint-handling procedures; Rule 3.8.3 – Customer redress; Rule 3.8.4 – Referring complaints to other firms

5.2.9 Know the service standards to which an authorised firm must adhere when dealing with complaints from customers

Rule 3.8.5 – Service standards; Rule 3.8.6 – Analysis of complaints for systemic weaknesses; Rule 3.8.7 – Quarterly reporting about complaints; Rule 3.8.8 – Restitution orders for contravention of relevant requirements

The handling of **complaints** from customers relating to a firm's regulated activities is a key area of proper business conduct for an authorised firm, whether the complaint received is valid or not. A complaint is an expression of grievance or dissatisfaction by a customer (other than an eligible counterparty), or one of the other persons mentioned below, either orally or in a durable medium, in connection with an authorised firm's provision (or offer of the provision) of a product or service which is a regulated activity.

Besides customers, the following persons can make a complaint:

a. an individual who is, or was, a beneficiary under a group policy issued by the firm
b. an individual who is a surviving dependent of a deceased retail customer of the firm
c. a legal personal representative of a deceased retail customer of the firm
d. a widow or widower of a deceased retail customer of the firm, or
e. an individual who is entitled to benefit from an insurance contract issued to a retail customer of the firm.

2.6.1 Internal Procedures

An authorised firm must establish and operate appropriate and effective written internal complaint-handling procedures to ensure that complaints made by customers in relation to its conduct of regulated activities, whether oral or written, are dealt with fairly, efficiently, and with due diligence and consideration.

A firm's internal complaint-handling procedures must cover:

- receiving complaints
- responding to complaints
- meeting the required service standards relating to complaints received
- referring complaints to another authorised firm when applicable
- appropriate investigation of a complaint, which must be done by someone competent to do so
- the person responding to a complaint must have the right authority to settle a complaint (including offering redress if appropriate) or must have access to someone who does

- responding to a complaint such that the complaint issue is adequately addressed and appropriate redress is offered if the complaint is upheld
- identifying complainants who would be eligible, if dissatisfied with the firm's decision, to apply to the independent adjudicator, and informing them in writing about their right to do so.

An authorised firm must:

- publish details of its internal complaint-handling procedures
- on request, give a copy of the published details to a customer
- give a copy of these published details automatically to a customer when it receives a complaint from the customer (unless the complaint is resolved by close of business on the next business day), and
- display in each of its sales offices, to which customers have access, a notice indicating that the firm is covered by the customer dispute resolution scheme.

2.6.2 Customer Redress

This rule applies when an authorised firm receives a complaint from a customer about the conduct of its regulated activities, and, having considered the complaint, the firm decides that redress is appropriate. The authorised firm must then:

- provide the customer with fair compensation, financial or otherwise, for any acts or omissions for which it was responsible, and
- give effect to any offer of redress accepted by the customer.

2.6.3 Record-Keeping of Complaint Referrals to Other Firms

If the authorised firm (the receiving firm) is satisfied on reasonable grounds that another authorised firm may be solely, jointly or partly responsible for the subject of the complaint, they need to refer the complaint to the other firm.

Any referral needs to be made in a durable medium, promptly, and within five business days from the date they are satisfied of the other firm's involvement. The customer needs to be informed of the referral in a durable medium, including the other firm's contact details. The receiving firm needs to continue to abide by the complaint-handling rules unless they are satisfied the other firm is solely responsible.

An authorised firm must make a record of every complaint it receives from a customer and how it is handled. The records must include all of the following:

- if the complaint is in writing – the complaint
- if the complaint is oral – details about the nature of the complaint
- the name of the complainant
- the name of the individual who investigated the complaint
- any correspondence between the firm and the complainant, including details of any redress offered by the firm
- if applicable, the steps the firm has taken to remedy a recurring or systemic problem revealed by the complaint.

All records must be kept for at least six years after the day the complaint is received.

2.6.4 Service Standards

This rule applies to an authorised firm if a complaint has not been resolved by close of business on the business day after the day it is received. If the firm has referred part of the complaint to another authorised firm, they must comply with this rule for the part of the complaint that was not referred. The rule requires that the authorised firm must give the complainant an acknowledgement, in a durable medium, of the complaint within five business days after the day the complaint is received.

The acknowledgement:

- must contain the name or job title of the individual handling the complaint for the authorised firm, and
- must give details of the firm's internal complaint-handling procedures.

The acknowledgement may be combined with a final response if the firm can provide the response within five business days after the day the complaint is received. If the authorised firm has not provided a final response within four weeks after the day the complaint is received, the firm must provide a response, in a durable medium, explaining why it has not been able to resolve the complaint and indicating when it will contact the complainant again.

If the firm has not provided a final response eight weeks after the day the complaint was received, the authorised firm must give the complainant a response, in a durable medium, that explains that the firm has not been able to give a final response, gives reasons for the further delay and indicates when it expects to provide a final response. If the complainant is eligible to apply under the customer dispute resolution scheme, the firm must inform the complainant that they may apply under the scheme if they are dissatisfied with the delay.

A final response may be given to the complainant, in a durable medium, and do one of the following:

- accept the complaint and, if appropriate, offer redress
- offer redress without accepting the complaint
- reject the complaint and give reasons for rejecting it.

In addition, if the complainant is eligible to apply under a customer dispute resolution scheme, the final response must state that if the complainant is dissatisfied with the response they may apply to the adjudicator, but must do so within three months after receiving the response. In this case, the contact details for the scheme must be included in the final response.

The authorised firm need not comply with the time frames above if:

a. before the end of the four-week or eight-week period mentioned, the complainant has accepted, in writing, the firm's response, and
b. in the case of a complainant eligible to apply to the independent adjudicator, the response had told the complainant that they can refer the complaint to the adjudicator if they are dissatisfied with the response.

For this rule, if the authorised firm receives the complaint on a day other than a business day, or on a business day after close of business, the complaint is taken to have been received by the firm on the next business day.

2.6.5 Analysis of Complaints for Systematic Weaknesses

Periodically, and at least annually, a firm must undertake an appropriate analysis of the patterns of complaints, including an investigation into whether the complaints indicate an isolated issue or a more widespread issue for customers. The results of the analysis must be submitted to the firm's compliance officer, risk management officer (if any) and to senior management.

Complaints received against intermediaries (inside and outside of the QFC), must be analysed in relation to products that the intermediaries have distributed on the firm's behalf, to enable the firm to assess the complete customer experience and identify any issues that need to be addressed.

2.6.6 Quarterly Reporting

On a quarterly basis, firms need to report complaints received to the Regulatory Authority. The format of the report will be determined by the Regulatory Authority.

2.6.7 Restitution Orders

A person who is entitled to make a complaint to an authorised firm may apply to the Civil and Commercial Court of the QFC for a restitution order if they have suffered loss or damage as a result of a contravention by the firm of a relevant requirement in relation to a regulated activity.

3. Advertisements

These rules, applying to all authorised firms, set out the requirements to be met in any communication made by a firm using any medium (for example, brochures, telephone calls, the internet, emails and presentations) if the purpose or effect of the communication is any advertisement of specific products or regulated activities.

3.1 General

Learning Objective

5.3.1 Know the requirements and content of advertisements

Rule 4.2.1 – Meaning of Advertisement; Rule 4.2.2 – Advertisements – compliance confirmation; Rule 4.2.3 – Advertisements for Shariah-compliant products; Rule 4.2.4 – Content

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An advertisement is a communication made using any medium (for example, brochure, telephone call, the internet, email and presentation) if the purpose or effect of the communication is to:

a. to promote or advertise:
   - one or more specified products, or
   - a regulated activity (or an activity that would be a regulated activity if it was carried on in or from the QFC)

b. to invite or induce any person:
   - to enter into an agreement with any person in relation to a specified product, or
   - to engage in a regulated activity (or an activity that would be a regulated activity if it was carried on in, or from, the QFC).

Before an authorised firm makes or approves an advertisement, the firm must ensure that a member of the firm's senior management with appropriate expertise and authority:

- reviews the advertisement, and
- confirms, in a durable medium, that it complies with the general rules on advertisement.

3.1.1 Shariah Compliance

The rules require that an authorised firm must not make or approve an advertisement for a product or service that is represented as being Shariah-compliant, unless the product or service has been approved by the firm's Shariah supervisory board. If the product was developed by another authorised firm or regulated financial institution, the product must also have been approved by that firm or institution's Shariah supervisory board. An advertisement for a product or service that is represented as being Shariah-compliant must specify the firm whose Shariah supervisory board approved the product or service, and the date on which the approval was given.

3.1.2 Content

An authorised firm must ensure that advertisements are 'clear, fair and not misleading'. In order to achieve this, a firm should take into account the type of communication being used and what information the communication is intended to provide. For example, a communication directed at an eligible counterparty may not need to include all the same information as one aimed at a retail customer. The Rulebook clearly stipulates rules regarding the content of these communications as defined below.

If an advertisement is made or approved by an authorised firm, it must ensure all of the following:

- the advertisement is clear, fair and not misleading
- the promotional purpose of the advertisement is clearly identifiable
- the advertisement does not omit anything that, by the omission, prevents it from being clear, fair and not misleading
- the accuracy of all material statements of fact in the advertisement can be substantiated
- if the advertisement includes a material statement of fact – that it is sufficiently up to date to ensure the advertisement is clear, fair and not misleading
- if the advertisement is in relation to a regulated activity or specified product that places a customer's capital at risk – that it makes this clear
- if the advertisement is in relation to a regulated activity or specified product with a complex charging structure or in relation where the authorised firm will receive two or more elements of remuneration – the advertisement contains sufficient information taking into account the needs of the recipients, and
- the advertisement does not mention an approval or authorisation of the Regulatory Authority that has not been given in writing by the Regulatory Authority:

- the advertisement is not misleading about any of the following:
  - the authorised firm's independence or the independence of the advice that it provides
  - the firm's ability to provide the advertised product or service
  - the scale of the firm's activities
  - the extent of the firm's resources
  - the nature of the involvement of the firm or any other person in the product or service
  - the scarcity of the product or service
  - the past performance or possible future performance of the product or service
- if the advertisement contains acronyms or initialisms, it states what the letters stand for, and
- the advertisement describes a product or service as free only if the entire product or service is available free to a customer.

If an authorised firm makes or approves an advertisement that is to be published in a durable medium, the firm must ensure that the advertisement contains the following information:

- the name of the firm
- either the address of the authorised firm making the advertisement or a contact point (for example, a website) from which the address is available
- the date of issue and, if applicable, the expiry date of the advertisement
- a statement about the firm's authorisation – either 'Authorised by the Qatar Financial Centre Regulatory Authority' or 'Authorised by the QFC Regulatory Authority'
- in case of co-branded financial products, the name and regulatory status of the other firm.

3.2 Customers

Learning Objective

5.3.2 Know regulatory requirements governing advising replacement products to retail customers

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3.2.1 Presentation

Before an authorised firm makes or approves an advertisement, it must ensure that the advertisement:

- is accurate and, in particular, does not emphasise any potential benefits of a specified product without also giving a fair and prominent indication of any relevant risks
- is sufficient for the needs of, and presented in a way that is likely to be understood by, the average member of the group to whom it is addressed or by whom it is likely to be received, and
- does not disguise, diminish or obscure important items, statements or warnings.

3.2.2 Comparisons

If an advertisement contains a comparison or contrast, the authorised firm must ensure that the:

- comparison is meaningful and presented in an objective and balanced way
- sources of the information used for the comparison are stated
- key facts and assumptions used to make the comparison are included, and
- nothing material to the comparison is omitted.

3.2.3 Past Performance

If an authorised firm makes or approves an advertisement that includes or refers to the past performance of a regulated activity or specified product, it must ensure that the performance information is not the most prominent feature of the advertisement and that:

- the performance information covers at least the last five years or the entire period for which the regulated activity or specified product has been offered but never less than three consecutive years
- the performance information is based on complete 12-month periods
- the reference period, basis and the source of the performance information are clearly stated
- the advertisement contains a prominent warning that the performance information refers to the past and that past performance is not a reliable indicator of future performance – the warning must appear near the information on past performance and may not be provided by way of a footnote, and
- the firm must make and retain a detailed record of how past performance was calculated.

3.2.4 Future Performance Forecasts

If an authorised firm makes or approves an advertisement that includes or refers to a forecast of the future performance of a regulated activity or specified product, it must ensure that:

a. the forecast is not based on, and does not refer to, simulated past performance
b. the forecast is based on reasonable assumptions supported by objective data
c. the forecast is based on net performance – (all commissions, fees or other charges are fully taken into account in the forecast and is not based on gross performance), and
d. the advertisement contains a prominent warning that forecasts are only estimates, and are not a reliable indicator of future performance. The warning must appear near the information on past performance and may not be provided by way of a footnote.

Additional rules apply if the advertisement relates to packaged investment products and guaranteed products.

3.2.5 Personal Contact

Authorised firms must not make unsolicited personal visits, at any time, to a retail customer. Personal visits may only be made if the customer has consented to it. Customer consent must be obtained for each visit, and the firm needs to retain a record of each consent. Consent needs to specifically mention the purpose, time, and date of the visit. Consent is not required if the visit is related to the settlement of an insurance claim made by the customer, or the administration of an existing insurance contract entered into by the customer.

Authorised firms may make unsolicited contact with retail customers by telephone in the following events:

a. the firm has, within the previous 12 calendar months, provided the customer with a product or service similar to the product or service that is the purpose of the telephone contact
b. the customer holds a product that requires the firm to maintain contact with the customer, and the contact is about the product
c. the customer has previously consented in a durable medium to being contacted by telephone by the firm.

An authorised firm may make telephone contact with a retail customer only between the hours of 09.00 and 21.00, Saturday to Thursday (and not on a religious, public or bank holiday), unless otherwise agreed with the customer.

When making a personal visit to, or telephone contact with, a customer, the person who makes the visit or contact must immediately do the following things in the order they are set out:

a. identify themselves by name, and give the name of the authorised firm and the purpose of the visit or telephone contact
b. in the case of a telephone contact that is being recorded, inform the customer so, and
c. ask whether the customer wishes to continue the visit or telephone contact and if the customer does not wish to continue, then end the visit or telephone contact immediately.

The firm may not conclude a sale during a personal visit or telephone contact that was initiated by the firm. In addition, they must comply with a request from a retail customer not to make a personal visit to, or make telephone contact with them again. The firm must make a record of the request, and must retain the record for at least six years after the request. Appropriate records of the matters discussed during a personal visit or telephone contact need to be made and retained for six years after the visit or contact.

3.3 Initial Disclosure Document

Learning Objective

5.3.3 Know the financial promotion rules that apply to customers

Rule 4.2.7 – Presentation; Rule 4.2.8 – Comparison; Rule 4.2.9 – Past performance; Rule 4.2.10 – Future performance forecasts; Rules 4.3.1 to 4.3.3 – Personal contact

5.3.4 Know the content and purpose of the initial disclosure document.

Rules 4.4.1 to 4.4.3

Initial disclosure documents must be drawn up, and a copy must be given to every retail and business customer in a durable medium before providing any service to that customer. It must be a stand-alone document, in a type of a reasonable size, and no longer than three pages of A4 paper. The document must be named either 'initial disclosure document' or 'terms of business'. The initial disclosure document must be dated and signed by an employee of the firm. The firm may request the customer to sign a copy, but only as evidence of the customer having received a copy.

The initial disclosure document must be in plain English, and the information covered will be, or is likely to be, appropriate for the customer given the activities the firm may conduct with the customer and whether they are a retail or business customer. Initial disclosure documents must be subject to periodical review to ensure the information remains accurate and current. In the event the firm makes a material change that will be relevant to, or affect existing customers, the firm must immediately provide a copy of the revised document to all customers.

The content of the initial disclosure document must contain any sector specific information. The document must start with the following information which needs to be provided in the order specified:

- the legal name and business address of the firm, and its trading name if it is different to the legal name
- the date on which the document came into effect
- either of the following statements about the firm's authorisation
  - 'Authorised by the Qatar Financial Centre Regulatory Authority'
  - 'Authorised by the QFC Regulatory Authority'
- information (in plain English) about the regulated activities that the firm is authorised to undertake:
- a statement as to whether or not the firm's regulated activities are conducted in accordance with Sharia:
- a description of the services that the firm offers including details of the nature and scope of the services offered and any restrictions in the nature and scope (either resulting from regulatory provisions or firm policy). Details need to be provided of any restrictions
- information about:
  - the firm's internal complaint-handling procedures, including information about how a complaint can be made to the firm, and
  - the customer dispute resolution scheme.

Any other information that is required by a provision of these rules to be in the firm's initial disclosure document must follow the information outlined above.

If an authorised firm's initial disclosure document specifies they can change the terms of the document without the agreement of their customers, the firm must not conduct business with, or for, a customer on the basis of a changed document unless the firm has given the customer notice, in a durable medium, of the change at least ten days prior to the date the change is to take effect. In the event it is impractical to give notice within this period, the notice must be given as early as is practicable.

4. Investment Management Business and Investment Mediation Business

4.1 Charges and Benefits

Learning Objective

5.4.1 Know an authorised firm's obligations regarding charges and benefits

Rule 5.1.3 – General obligations – charges; Rule 5.1.4 – Obligation: research charges; Rule 5.1.5 – General obligation: benefits from third parties

It is the obligation of an investment manager or investment intermediary to ensure their fees and charges to customers are not excessive. In some cases, charges that depend on the value of the investments (including packaged investment products) are not readily realisable.

As such, the valuation of the charges must be either:

a. the price likely to be agreed between a willing buyer and a willing seller who are dealing at arm's length and who both have all the information that is freely available about the investments, or
b. in the case of a packaged investment product that is an insurance contract, the value that the customer would receive if the contract were terminated or surrendered.

Specific research charges may only be charged in accordance with the firm's agreement with that particular customer. This agreement must specify what research can be paid for and the research budget. In addition, the agreement must provide for:

a. reviewing and assessing the purchased research, and
b. periodic disclosure to customers.

An authorised firm that provides investment management or investment advice services that holds itself out as being independent, must not retain any fees, commission, or monetary or non-monetary benefits from a third party. If the firm receives such a benefit, the firm must pass the benefit on to the relevant customer, in full, as soon as possible after receiving it. Minor non-monetary benefits may be retained, however:

a. the firm must not allow such a benefit to impair the firm's duty to act in the best interests of its customers
b. the benefit, if retained, must be used to improve the firm's service to its customers, and
c. the firm must inform its customers of the benefit and that the firm has retained it.

If the firm pays for the research out of their own resources or by way of a specific research charge to the relevant customer, it does not fall under this rule.

4.2 Carrying out Investment Management Business

Learning Objective

5.4.2 Know the requirements for firms carrying out investment management business

Rule 5.2.2 – Discretionary investment management agreements; Rule 5.2.3 – Discretionary investment management services for retail customers and certain opted-up customers; Rule 5.2.4 – Investment management services for retail customers: know your customer

Prior to proposing to manage **relevant investments** in an account or portfolio for a customer on a discretionary basis, an authorised firm must enter into an investment management agreement with the customer, in a durable medium, signed by both parties. This agreement must contain the following:

a. portfolio composition and initial value – the initial composition and value of the portfolio and its on-going composition
b. discretion – the extent of the firm's discretion and whether there are any restrictions or limits
c. valuation – the basis on which the assets being managed are to be valued

d. underwriting – whether the firm is permitted to commit the customer to an obligation to underwrite or sub-underwrite an issue or offer of securities and, if so, any restrictions or limits of the extent of the underwriting
e. borrowing – whether the firm is permitted to borrow on the customer's behalf, and, if so:
   - the circumstances in which it may borrow
   - the limits on such borrowing, and
   - the circumstances (if any) in which the limits can be exceeded
f. stock lending – whether or not the firm is permitted to undertake stock lending with or for the customer, and, if so:
   - the assets to be lent
   - the type and value of collateral from the customer, and
   - the method and amount of payment owing to the customer in the lending.

Prior to entering into (or proposing to enter into) a discretionary investment agreement with a retail customer or an individual who is opted up to a business customer, the authorised firm must take reasonable steps to ensure that:

a. they have sufficient personal and financial information about the customer
b. the service set out in the agreement is suitable for the customer, taking into account what the customer has told the firm and anything else that the firm knows or reasonably ought to know about the customer.

In addition, the firm must be satisfied that:

a. the service is appropriate for the customer
b. the customer is likely to continue to be able to meet the financial commitment associated with the service
c. the customer is financially able to bear any risks associated with the service, and
d. the firm must give he customer a statement, in a durable medium, of why the firm considers the service suitable for the customer.

The firm must give the customer a statement, in a durable medium, of why the firm considers the service suitable for the customer. If an authorised firm makes an investment decision that applies to (part of) the portfolios of a number of customers, the firm must take reasonable steps to ensure that the decision is suitable for all of those customers, taking into account each customer's stated investment objectives.

An authorised firm must periodically assess the portfolio or account of each of the customers to ensure that the portfolio or account remains suitable, taking into account what the customer has told the firm and anything else that the firm knows or reasonably ought to know about the customer. The minimum frequency of such assessments must be stipulated in the firm's agreement with such a customer.

4.2.1 Know Your Customer (KYC)

An authorised firm must take reasonable steps to ensure that the information they have about a retail customer is accurate, complete and up-to-date.

To the extent appropriate for the customer's investment experience, the nature and extent of the service to be provided and the type of product or transaction envisaged, including its complexity and the risks involved, the information the firm obtains about the retail customer must include all of the following:

- the customer's financial situation (for example, the source of his or her income, his or her financial commitments, savings, property and investments, loans or mortgages, and pensions)
- the customer's personal situation and plans (for example, his or her marital status, children, security of employment or term of employment contract, and future plans, including retirement plans)
- the customer's investment objectives, investment horizon and attitude to risk
- the customer's knowledge of, and experience in, the relevant investment field
- the nature, volume and frequency of the customer's transactions in the investment field and the period over which they have been carried out
- the customer's level of education and profession, or former profession.

If a customer refuses to provide personal or financial information when requested by the firm, the firm must warn the customer, in a durable medium, that failure to give the information may adversely affect the quality of the service that the firm provides. The firm must retain a record of the customer's refusal.

4.3 Investment Intermediaries

Learning Objective

5.4.3 Know the rules relating to investment intermediaries

Rule 5.3.2 – Investment advice; Rule 5.3.3 – Know your customer; Rule 5.3.4 – Independence

If an authorised firm gives advice on relevant investments to a retail customer the firm must take reasonable steps to ensure that:

a. it has sufficient personal and financial information about the customer to give the advice (see rule 4.3.1):
b. the advice is suitable for the customer, taking into account what the customer has told the firm and anything else that the firm knows, or ought reasonably to know about the customer.

If the firm recommends a product or service, they must be satisfied that:

- the product or service is appropriate for the customer
- the customer is likely to continue to be able to meet the financial commitment associated with the product or service, and
- the customer is financially able to bear any risks associated with the product or service.

The firm must give the customer a statement, in a durable medium, outlining why they consider the advice to be suitable for the customer. The statement must set out the following information:

a. the customer's demands and needs
b. an explanation of why the firm has concluded that the advice is suitable for the customer, taking into account the information provided by the customer

c. an explanation of any possible disadvantages that the advice might have for the customer, including the nature of the risks involved.

An authorised firm must establish systems and controls to ensure they effectively monitor all investment advice given by their employees, and that the advice is appropriate and of high quality. In addition, the systems and controls need to ensure the necessary remedial measures are taken in relation to the delivery of the advice.

A continuous training program needs to be in place to enable the firm's employees who give advice:

- to keep abreast of market trends, economic conditions, innovations and modifications made to the relevant products and services
- to maintain an appropriate level of knowledge about their industry segment, including the characteristics and risks of the products and services
- to know the applicable legal and regulatory requirements, including the requirements about:
  - the communication of information about the products and services, and
  - appropriately disclosing any situation that might compromise the impartiality of the advice given or limit such advice, and
- to be familiar with the documentation about the products and services and to answer reasonably foreseeable questions.

Similar to carrying out investment business, KYC is important for Investment Intermediaries. The rules for KYC are the same as described in section 4.2.1 above

4.3.1 Independence

In relation to providing investment advice to a retail customer in relation to packaged investment products, the firm must not hold itself out as acting independently unless:

- it is not party to any arrangements with particular product providers that prevent it from giving advice on packaged investment products from the whole market (or the whole of the relevant sector of the market)
- it gives the advice on packaged investment products from a sufficiently large range of types of products and product providers to enable it to give the advice on the basis of a fair analysis of the market, and
- it offers retail customers the opportunity of paying in full for its services by means of a fee.

If an authorised firm is providing investment advice to a retail customer in relation to a packaged investment product provided by another person:

- the firm must not hold itself out as the provider of the product, and
- the firm must not do or say anything that might reasonably lead the customer to be mistaken about the identity of the product provider (and, if the customer is apparently mistaken about the identity of the provider, the firm must correct the mistake).

4.4 Packaged Investment Products

Learning Objective

5.4.4 Know the rules relating to packaged investment products

Rule 5.4.1 – Key information documents to be prepared; Rule 5.4.2 – Key information documents to be given to retail customers; Rule 5.4.3 – Key information documents: form and content

5.4.5 Know the general rules relating to packaged investment products

Rule 5.5.1 – Not execution only; Rule 5.5.2 – Life insurance: contract documents; Rule 5.5.3 – Periodic statements; Rule 5.5.4 – Changes in terms and conditions

This rule applies to firms who provide packaged investment products for sale to retail customers and applies to other products they (offer to) sell, or give advice on.

Each packaged investment product must be accompanied with a key information document (KID) prepared by the firm. This document must be provided to the customer in good time before they become bound by any contract.

If the product was produced by another authorised firm, the selling firm may give the customer the KID prepared by the other authorised firm. However, the KID must prominently display each of the following:

- the name of the selling firm
- either the selling firm's address or a contact from which that address is available
- either of the following statements about the selling firm's authorisation:
  - 'Authorised by the Qatar Financial Centre Regulatory Authority'
  - 'Authorised by the QFC Regulatory Authority'.

If the product was produced by a person in a jurisdiction outside the QFC, the authorised firm must prepare the KID.

If during the term that a customer holds a packaged investment product there is a change in any significant information in the relevant KID that the customer should be aware of, the selling firm must ensure that a revised document is given to any customer so affected, drawing the customer's attention to the change.

The language of a KID for a packaged investment product must be plain and easy to understand. In addition, it must be a separate document, in type of a reasonable size, and no more than three A4 pages long. The words 'key information document' must appear prominently at the top of the first page.

A KID for a packaged investment product must set out information under the following specific headings, and in the following order (Schedule 1):

- Opening Statement.
- General information.

- What is this product?
- What are the risks and what could I get in return?
- What happens if the product provider is unable to pay out?
- What are the costs?
- How long should I hold the product and can I take out money early?
- How can I complain?
- Other relevant information.

Only the information required in Schedule 1 may be included in the KID. The KID may not refer to marketing material.

4.4.1 Packaged Investment Products – Other Matters

Packaged products may not be sold to a retail customer on an **execution-only** basis. Execution-only is a trading service restricted purely to the execution of trades, without the client being given any advice about transaction, the benefits, suitability, or risk.

If an authorised firm finalises the sale of a packaged investment product that is a life insurance contract with, or for, a customer, the firm must, within five business days after finalising the sale, give the customer, in a durable medium, a contract document containing all the terms of the contract.

Every customer to whom a packaged investment product is sold, needs to receive a periodic statement (at least annually) about the product. It does not apply to packaged investment products acquired through another investment structure for which periodic statements are provided to the customer concerned.

The periodic statement must contain, at a minimum, the following information:

- The value of the product at the beginning of the statement period:
- The value of any additional contributions made during that period:
- The value of the product at the end of that period as follows:
    - For a packaged investment product that is a life policy, the value of the product at the beginning of the statement period and the value of the product at the end of that period must be the values that the customer would receive if the contract was terminated or surrendered on the relevant dates. If the statement also includes the policy values, the beginning and end value the customer would receive must be given greater prominence.
    - For a packaged investment product that is not a life policy, the value of the product at the beginning of the statement period and the value of the product at the end of that period must be the prices likely to be agreed, on the relevant dates, between a willing buyer and a willing seller, who are dealing at arm's length, and who both have all the information that is freely available about the product.

If the value of a packaged investment product is linked to the performance of underlying funds, a periodic statement must inform the customer how and where to find information about the performance of the underlying funds, changes in investment, investment strategy, number and value of the units and movements during the past year, administration fees, taxes, charges and current status of the investment in the underlying funds.

For the second and subsequent periodic, statements in relation to a product, the value of the product at the beginning of the statement period must be the same as the value of the product at the end of the previous periodic statement.

If relevant, the periodic statement must contain information about participation rights in any surplus funds, and the basis of calculation of any bonus awarded to the customer during the relevant period.

If there is any significant change in the terms and conditions of a packaged investment product, the authorised firm that sells the product must notify each affected customer of their rights and obligations about the change, and must obtain the customer's consent as appropriate.

5. Insurance Business and Insurance Mediation Business

5.1 General Requirements for Insurers

Learning Objective

5.5.1 Know the general requirements for insurers

Rule 6.2.2 – Developing insurance products: policies and procedures; Rule 6.2.3 – Appointment of insurance intermediaries

A QFC insurer must have policies and procedures, approved by the insurer's governing body and recorded in a durable medium, for the development of new insurance products. This needs to include insurance products developed by another insurer for which the QFC insurer will act as an intermediary.

The policies and procedures must ensure that any new insurance product:

- is reviewed by the insurer's compliance officer to confirm that the insurer is authorised to provide or sell the product, and that the product satisfies all the requirements of these rules and any other relevant rules or laws
- if a takaful product, is approved by the insurer's Shariah supervisory board before it is offered to the insurer's customers
- is assessed in relation to the insurer's business plan and risk appetite, and specifically in relation to its insurance risk policies and procedures
- uses adequate information and data about the sustainability of the product and how it satisfies customers' needs, and
- is subjected to a thorough assessment of its main characteristics.

The guidance to the rule states that the Regulatory Authority expects that a new insurance product would also be carefully reviewed by the insurer's risk management officer and the individual who exercises the actuarial function for it. The Authority considers it good practice for a QFC insurer to establish a committee in relation to product development. A QFC insurer must adequately support any

intermediary that will distribute a new product to customers. The support should focus on minimising the possibility of misselling the new product, and could include training for the intermediary's employees, or documents explaining the new product and its significant characteristics.

A QFC insurer may appoint an insurance intermediary that is established in the QFC, in the State of Qatar, or in any other jurisdiction, as long as they:

- are satisfied that the intermediary:
  - can lawfully act as an insurance intermediary in the relevant jurisdiction
  - has the appropriate knowledge and ability to conduct insurance mediation business, and
  - is required, in its conduct of insurance mediation business, to comply with conduct of business rules that apply to it by law, and
- produces evidence to satisfy the Regulatory Authority that those rules offer equivalent consumer protection to that given by these rules.

If the insurer is not satisfied around the requirements regarding the relevant conduct of business law for the intermediary the insurer can still appoint the intermediary, as long as the intermediary's contract of appointment contains provisions:

- that require the intermediary to comply with all of the requirements of these rules as if it were acting in, or from, the QFC, and
- by which the insurer accepts liability to customers for every act or omission of the intermediary that is directly applicable to the insurance mediation business that the intermediary conducts for the insurer.

The appointment of an insurance intermediary must be recorded in a durable medium, and the QFC insurer must obtain evidence, also in a durable medium, that the intermediary can lawfully act as an insurance intermediary in the relevant jurisdiction, and must retain that evidence. A QFC insurer must establish systems and controls to verify, at least annually, that each of its appointed intermediaries can lawfully act as an insurance intermediary in the relevant jurisdiction.

5.2 General Requirements for Insurance Intermediaries

Learning Objective

5.5.2 Know the general requirements for insurance intermediaries

Rule 6.3.1 – Initial disclosure documents; Rule 6.3.2 – Disclosure by tied agents; Rule 6.3.3 – Initial disclosure documents need not be provided in certain circumstances; Rule 6.3.4 – Additional disclosure on customers' requests; Rule 6.3.5 – Authorised firms acting as general insurance intermediaries for insurers outside Qatar; Rule 6.3.6 – Certain sellers of insurance not taken to be insurance intermediaries; Rule 6.3.7 – Business practices of insurance intermediaries

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Initial disclosure documents do not need to be provided to a customer in the course of renewing or amending a **non-investment insurance contract** if the insurer has already given an **initial disclosure document** in relation to the contract, and the information in the document is still accurate and up to date.

For types of insurance (such as car insurance) where it is customary for customers to obtain two or more premium quotations and compare them, a QFC insurer need not provide an initial disclosure document with a quotation. However, if a quotation is accepted, the insurer must provide an initial disclosure document before the contract is completed.

On request of a customer, a QFC insurance intermediary (including a QFC insurer that is acting as an insurance intermediary) must disclose to the customer:

- all commissions and other economic benefits accruing to the intermediary, or another member of its corporate group, from business transacted for the customer, and
- any payment that the intermediary receives for providing to, or securing for, the customer any additional insurance-related services.

This does not apply to premiums, but does apply to fees (including any fees that an authorised firm charges if it receives no commission from an insurer in relation to a contract of insurance).

An authorised firm that is acting as an insurance intermediary for an insurer established in a jurisdiction outside the QFC, or the State of Qatar, must ensure that the firm complies with every law, regulation and rule of the State of Qatar applying to general insurance business.

An entity that sells insurance contracts is not treated as an insurance intermediary, and any relevant insurance contract is treated as having been sold by the insurer concerned, if all of the following conditions are satisfied:

- the sale of insurance contracts is incidental to the entity's main business
- there is a written contract between the entity and the insurer
- the contract provides that the entity may sell only a single specified class of general insurance, and may not sell any other class of insurance, nor insurance contracts issued by another insurer
- the contract provides that the entity may not give advice to customers in relation to the purchase of insurance contracts
- the contract provides that, in relation to the sale of the insurance contracts, the insurer is liable for every act, or omission of the entity, to the same extent as it would be liable if the contract had been sold by the insurer itself
- the contract provides that money paid to the entity for an insurance contract is to be treated as having been paid to the insurer when it is paid to the entity.

A QFC insurance intermediary or QFC insurer that is acting as an insurance intermediary must hold an appointment (recorded in a durable medium), specific to it, from each insurance company that it can deal with. If a QFC insurance intermediary that holds an appointment from an insurer is a branch, they must be satisfied that the insurer is appropriately authorised by a competent authority in the insurer's home jurisdiction.

If a QFC insurance intermediary refers insurance business to an insurer by way of another insurance intermediary, it must have an appointment, recorded in a durable medium, from the other insurance intermediary. An intermediary of a QFC insurer is not taken to carry on business in, or from, the QFC only because it acts as an intermediary for the QFC insurer. If an authorised firm uses intermediaries to distribute insurance products, the firm must be satisfied that each intermediary provides information to customers in a way that will help a customer to make an informed decision.

5.3 Non-Investment Insurance – Retail

Learning Objective

5.5.3 Know the rules relating to non-investment insurance – retail

Rule 6.4.1 – Non-investment insurance contracts: general requirements for retail business; Rule 6.4.2 – Key information; Rule 6.4.3 – Form and content of key information document; Rule 6.5.1 – Non-investment insurance: provisions of contract document; Rule 6.5.2 – Non-investment insurancerenewals; Rule 6.5.3 – Non-investment insurance: mid-term changes; Rule 6.5.4 – Non-investment insurance: claims handling by insurance intermediaries; Rule 6.5.5 – Non-investment insurance: fees and charges not to be excessive; Rule 6.5.6 – Non-investment insurance: communication with joint policyholders; Rule 6.5.7 – Non-investment insurance: group policies

5.5.4 Know the rules relating to cancelling insurance contracts

Rule 6.6.1 – Cancellation terms; Rules 6.6.2 and 6.6.3 – Life insurance contracts and retail customers; Rule 6.6.4 – Exercising rights to cancel; Rule 6.6.5 – Consequences of cancellations

5.3.1 General Requirements for Retail Business

Before an authorised firm sells a non-investment insurance contract to a retail customer they must take reasonable steps to ensure that:

- they have information about the customer's personal and financial circumstances (including details of the customer's existing insurance cover) and objectives that might reasonably be expected to be relevant
- the contract is suitable for the customer's demands and needs, taking into account:
  - whether the level of cover is sufficient for the risks that the customer wishes to insure
  - the cost of the contract, if the cost is relevant to the customer's demands and needs, and
  - the relevance of any exclusions, excesses, limitations or conditions in the contract.

In addition, the firm must explain to the customer, the customer's duty to disclose all circumstances material to the contract (both before the insurance starts and throughout the term of the contract) and the consequences of any failure to make a disclosure.

The firm must give the customer a statement, in a durable medium, of why the firm considers the contract to be suitable for the customer. The statement must set out the customer's demands and needs, including an explanation of why the firm has concluded that the contract is suitable for the customer, taking into account the information provided by the customer. Furthermore, it must provide an explanation of any possible disadvantages that the contract might have for the customer, including the nature of the risks involved.

An authorised firm must establish systems and controls to promote the giving of good advice. In particular, the firm must establish continuous training programmes that enable the employees who give advice to:

- keep abreast of market trends, economic conditions, innovations and modifications made to their products and services
- maintain an appropriate level of knowledge about their industry, including the characteristics and risks of the products and services
- know the applicable legal and regulatory requirements
- know the requirements for communicating information about the products and services, and for appropriately disclosing any situation that is liable to compromise the impartiality of the advice given or limit such advice, and
- be familiar with the documentation about the products and services, and to answer reasonably foreseeable questions.

An authorised firm must establish systems and controls to effectively monitor all non-investment insurance advice given by employees in order to ensure the quality and appropriateness of that advice, and to take any necessary remedial measures.

5.3.2 Contract Document

Once the firm finalises a non-investment insurance contract with, or for a customer, the firm must give the customer a contract document, in a durable medium, and containing all the terms of the contract, within five business days after finalising the contract.

5.3.3 Renewals

This rule applies if an authorised firm has finalised a non-investment insurance contract with, or for, a customer.

The authorised firm must give the customer adequate advance notice of the end of the term of the contract to allow the customer sufficient time to consider whether continuing cover is required, and applies to the non-investment insurance contract, unless the:

- contract is for a term of less than one calendar month
- authorised firm has reason to believe that the customer does not wish to renew the policy, or renew the policy through the firm
- authorised firm has told the customer that it does not wish to act for the customer on renewal
- customer has already been told that the insurer will not invite renewal, or
- the customer asks for an extension of the contract for a term of less than the term of the original contract.

Adequate notice is not less than 21 days before the day the term of the policy ends and must be given if the customer is a retail customer.

Also, for a retail customer, the authorised firm must do one of the following before the start of the 21-day period mentioned:

- if the insurer is willing to invite renewal of the policy: give the customer information about renewal terms in a durable medium
- if the insurer is not willing to invite renewal of the policy, or
- if the firm no longer deals with the insurer: inform the customer of this fact.

If the firm is renewing the policy, the authorised firm must give the following information to the retail customer:

- a statement of any changes to the terms of the policy
- an explanation of the changes, if necessary
- the total amount of the premium for the policy or, if the premium cannot be stated, how the customer can calculate the total amount
- whether there is a right to cancel and, if there is a right to cancel, how to cancel the contract and the consequences of doing so, and
- a prominent statement of the customer's right to ask for a new policy document.

5.3.4 Mid-Term Changes and Claims

Mid-Term Changes

This rule applies if an authorised firm has finalised a non-investment insurance contract with, or for a customer, and during the term of the contract either:

- the terms of the contract change (or are proposed to change), or
- the premium or any other amount payable by the customer under the contract changes (or is proposed to change) otherwise than because of the operation of a formula previously disclosed to the customer.

The authorised firm must tell the customer about the change (or proposed change) in a durable medium and must take reasonable steps to comply not later than a reasonable time before the change takes effect.

If the change relates to the terms of the contract other than the premium, the authorised firm must explain, in a durable medium, any implications of the change when telling the customer about the change.

If the change is being made at a retail customer's request, and it is impracticable to explain the implications of the change, in a durable medium, before the change takes effect, the authorised firm must take reasonable steps to give the explanation orally to the customer before the change takes effect.

If the change is being made at the customer's request, the authorised firm must pay any amount owed to the customer under the contract without delay.

Claims Handling by Insurance Intermediaries

An authorised firm must act with appropriate care, skill and diligence in acting for a customer in relation to a claim on a non-investment insurance contract.

In relation to a claim on a non-investment insurance contract, an authorised firm must not put itself in a position where its own interest, or its duty to any person for whom it acts, conflicts with its duty to any client, unless it has:

- made proper disclosure to the client of all information needed to enable the client to give informed agreement to the arrangement, and
- obtained the prior informed agreement of the client.

Neither must a firm decline to act for the person or client unless, in the particular circumstances of the case, disclosure and informed agreement are insufficient to reconcile the conflict.

If an authorised firm acts for an insurer and not a client, in relation to a claim on a non-investment insurance contract that it arranged, the firm must tell the client that in relation to the claim, it is acting on behalf of the insurer, and not the client. This will apply, for example, if an authorised firm has delegated authority for claims handling and deals with a claim in relation to a contract that it sold to a client, but is not acting for the client in relation to the claim.

If an authorised firm is notified of a claim on a non-investment insurance contract that it arranged, and the insurer has not given it authority to deal with the claim, the firm must:

a. forward the notification to the insurer promptly, and
b. inform the client immediately that it cannot deal with the notification.

5.4 Claims Handling

Learning Objective

5.5.5 Know the rules relating to claims handling

Rule 6.6.1 – Cancellation terms; Rules 6.6.2 and 6.6.3 – Life insurance contracts and retail customers; Rule 6.6.4 – Exercising rights to cancel; Rule 6.6.5 – Consequences of cancellations

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The overarching requirement here is that an authorised firm handles insurance claims 'fairly and promptly' and also ensures that a client is kept up to date with the progress of a claim. The procedures (recorded in a durable medium) must include all steps from the claim being raised to its settlement. If an authorised firm effects an insurance contract with, or for a client, it must give the client reasonable guidance in making a claim under the policy, and information about the process. The guidance must not impede a policyholder in making a claim they are not entitled to make.

A QFC insurer must:

- respond promptly to a claim
- acknowledge the receipt of a claim and must give notice of any missing information or documents promptly after receiving the relevant claim form
- not reasonably reject a claim, and
- keep the policyholder reasonably informed about the progress of the claim.

The policyholder must be notified (in a durable medium) of the acceptance or refusal of the claim promptly upon completion of the investigation. In the event a claim is (partly) accepted, the notice must set out the settlement amount, how the amount was determined and, if applicable, reasons why a reduced settlement is offered, or any part of the claim is not accepted. If the claim is denied, the notice

must set out the reasons. The insurer must give the policyholder copies of documents or information used in reaching the decision, if the policyholder so requests.

In the event the policyholder does not accept the settlement offered, the insurer must explain, in a durable medium, the insurer's complaints-handling process and the customer dispute resolution scheme. When necessary, a QFC insurer must appoint a registered loss adjuster, and must notify the policyholder concerned about the appointment (providing contact details) within three business days.

5.4.1 Long-Term Care Insurance Contracts

If a claim is received under a long-term care insurance contract, the firm must respond promptly by providing the policyholder, or the person acting for the policyholder, with:

a. a claim form, if the insurer requires a claim form to be completed
b. a summary of the insurer's claims-handling procedures, and
c. appropriate information about the medical criteria that must be met and any waiting period that applies under the terms of the contract.

As soon as practicable after receiving the claim, the insurer must inform the policyholder, or the person acting for the policyholder:

a. for each part of the claim that it accepts – whether the claim will be settled by paying the policyholder, by paying another person to provide goods or services, or by providing goods and services, and
b. for any part of the claim that it rejects – why the claim has been rejected and whether any future rights to claim exist.

5.4.2 Payment of Claims

Settlement payments must be made promptly after (partly) accepting a claim.

5.5 Record Keeping

Learning Objectives

5.5.6 Know the rules relating to record keeping

Rule 8.1.2 – Obligation to keep records; Rule 8.1.4 – Records that must be kept; Rule 8.1.3 – How long records must be retained

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Authorised firms must maintain complete and readily accessible records. Details of transactions need to be retained for ten years after the date of discontinuation, or completion of the transaction. All other records must be kept six years from the date on which the firm last provided any product or service to the customer concerned, or the period specified in a rule, whichever is longer.

Authorised firms must keep the following records:

- all instructions received from, or on behalf, of a customer, including the date of receipt and transmission
- all decisions made in the exercise of its discretion on behalf of a customer in relation to a product
- any conditions imposed by the customer on instructions accepted from the customer
- a list of customers
- up-to-date customer records including, at a minimum:
  - a copy of all the documents required for the customer's identification and profile
  - contact details
  - all information and documents prepared in compliance with these rules
  - details of products and services provided to the customer
  - all correspondence with the customer and details of any other information provided in relation to a product or service
  - all documents completed or signed by the customer
  - copies of every original document submitted by the customer in support of an application for the provision of a service or product
  - all other relevant information about the customer.

6. Customer Dispute Resolution Scheme

Learning Objective

5.6.1 Know the functions of the independent adjudicator (Parts 2– 4)

Part 2 – The Independent Adjudicator; Part 3 – Application for Independent Adjudicator's review of decisions; Part 4 – Independent Adjudicator's process

The Customer Dispute Resolution Scheme (CDRS) Rules of 2019 establish an independent body for dealing with complaints by the customers of authorised firms.

6.1 Establishment of the Independent Adjudicator and Appointment of Members

The independent adjudicator is constituted by one or more members appointed by the Regulatory Authority from time to time. The adjudicator is not a part of the Authority and not subject to direction by the Authority. Members are appointed in writing for a fixed period of time, or for the adjudication of a particular complaint. The terms of the appointment are agreed between the member and the Regulatory Authority.

6.2 Application for Independent Adjudicator's Review of Decisions

The following persons (applicants) are eligible to apply to the independent adjudicator:

- Retail customers of an authorised firm.
- Business customers of an authorised firm with no more than 20 employees.
- Individuals who are, or were, a beneficiary under a group policy issued by an authorised firm.
- Individuals who are a surviving dependant of a deceased retail customer of an authorised firm and their legal representatives.
- The widow or widower of a deceased retail customer of an authorised firm.
- Individuals who are entitled to benefit from an insurance contract issued to a retail customer of an authorised firm.

In addition, the applicant has made a complaint to the authorised firm, or a complaint was made to the firm by:

- if the applicant is an individual who is, or was, a beneficiary under a group policy issued by the firm – the person to whom the policy was issued
- if the applicant is an individual who is a surviving dependant of a deceased retail customer of the firm – that customer
- if the applicant is a legal personal representative of a deceased retail customer of the firm – that customer
- if the applicant is a widow or widower of a deceased retail customer of the firm – that customer
- if the applicant is an individual who is entitled to benefit from an insurance contract issued to a retail customer of the firm – that customer.

Before applying, the applicant must have first had their complaint processed by the internal complaint-handling procedures of the authorised firm. An application to the adjudicator can only be made once the firm has given its final response to the customer's complaint and the customer is not satisfied with the response, or after the response period has ended. Any applications to the adjudicator need to be made within four months after the applicant has received the final response from the firm, prior to the end of the response period, or at the end of the response period. However, in the event it considers there is sufficient reason for the delay in application, the adjudicator may accept, consider and decide on a complaint that is made later than four months after the end of the response period or receipt of the final response.

The application must be made to the Regulatory Authority and sent to the address provided for this purpose on an approved website, or in any other way the Authority allows. The application must detail the substance of the complaint and include copies of relevant correspondence and other documentation. The QFCRA may request the firm or the applicant to provide further information or copies of documents on its own volition or on request of the adjudicator. The firm or applicant must comply with such a request.

6.3 Independent Adjudicator's Process

Members of the independent adjudicator must not act in relation to a complaint, if doing so would expose them to a conflict of interest.

The authorised firm whose action or decision is subject to an application to the independent adjudicator must participate in the process and cooperate fully with the adjudicator. In particular, the firm must comply with any request from the Authority for further information or copies of documents. The relationship between the authorised firm and the independent adjudicator is the same as with the regulator, and all general principles relating to the conduct, operation and financial standing of the authorised firm apply.

The independent adjudicator is subject to the principles of procedural fairness, which is also known as natural justice, and is the duty to grant a fair, unbiased hearing to both parties in a dispute. The adjudicator is not bound by the technical law of evidence, but may inform itself about any matter in any way it finds appropriate and is not bound by the technical law of evidence. In particular, it may rely, without further inquiry, on information or documents obtained by the Regulatory Authority.

The adjudicator must make a decision in accordance with the substantial equity and fairness of the matter. It makes its own procedures bearing in mind it:

- has no obligation to grant an oral hearing to any party
- must make its decision in accordance with the substantial equity and fairness of the matter. In particular, it may decide that a party may not rely on a contractual provision if it would be unequitable or unfair to do so
- must give its decision in writing transmitted through the authority.

In the event there is more than one member of the adjudicator, each may exercise the powers of the adjudicator, and a decision by one member is valid as a decision of the adjudicator.

The adjudicator may award compensation to an applicant up to QR400,000 which is payable by the authorised firm concerned. It has no power to award costs in relation to an application.

6.4 Effects of the Adjudicator's Decision

The applicant must either accept or refuse to accept the decision of the independent adjudicator within 21 days after being notified of it. The adjudicator may extend the period for acceptance (either before or after the period has ended) if the adjudicator is satisfied that there is sufficient reason to do so.

In the event the applicant refuses to accept the decision, the decision is of no effect, however, in the event the customer accepts the decision, it is binding on both the applicant and the authorised firm concerned.

The firm must comply with the decision (and in particular must pay the applicant any compensation awarded) as soon as reasonably practicable.

A decision is final and is not subject to appeal.

6.5 Transitional

The independent adjudicator established prior to 1 January 2020, under the previous rules, continues to be in existence. Any members appointed, applications made, and decisions made on applications made prior to this date continue to have effect as under the previous rules.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What are the three client classifications?
   Answer Reference: Section 1

2. Who is an eligible counterparty?
   Answer Reference: Section 1.2

3. What are the requirements for authorised firms for managing conflicts of interest?
   Answer Reference: Section 2.2

4. What are the requirements placed on authorised firms regarding personal account dealing?
   Answer Reference: Section 2.4

5. What internal procedures must the authorised firm have in place to handle customer complaints?
   Answer Reference: Section 2.6.1

6. What information is required to be included in an advertisement approved by an authorised firm?
   Answer Reference: Section 3.1.2

7. Under what circumstance is an initial disclosure document not required for a retail customer?
   Answer Reference: Section 5.2

8. What factors must an authorised firm take into account when assessing the suitability of a non-investment insurance contract for a retail customer?
   Answer Reference: Section 5.3.1

9. What are the requirements for authorised firms handling insurance claims for retail customers?
   Answer Reference: Section 5.4

10. How long must authorised firms keep records of transactions?
    Answer Reference: Section 5.5

11. To which body can customers make complaints against authorised firms?
    Answer Reference: Section 6

Chapter Six

Other QFCRA Rulebooks

1. Collective Investment Schemes (CIS) Rules 137
2. Governance and Controlled Functions Rules (CTRL) 147
3. General Rulebook 153
4. Individuals (Assessment, Training and Competency) Rulebook (INDI) 166
5. Captive Insurance Rulebook (CAPI) 173
6. Insurance Mediation Business Rules (IMEB) 177
7. Prudential Banking Business Rules (BANK) 179
8. Investment Management and Advisory Rules (INMA) 192

This syllabus area will provide approximately 25 of the 75 examination questions

1. Collective Investment Schemes (CIS) Rules

The Qatar Financial Centre (QFC) broadly divides schemes into two categories: QFC schemes and non-QFC schemes. Any non-QFC scheme is outside the jurisdiction of the QFC and is, therefore, outside the scope of this workbook. QFC schemes are established in the QFC and are registered under either one of the following:

- **COLL** – these schemes are established in accordance with the regulations identified in the Collective Investment Funds Rulebook and can be qualified investor schemes or retail schemes.
- **PRIV** – these schemes are established in accordance with the regulations identified in the Private Placement Schemes Rulebook and are private placements.

Qualified investor schemes, retail schemes and private placements are subject to different regulatory requirements reflecting the nature and risk profiles of the scheme as well as the types of investor the scheme is seeking to attract. COLL provides for a range of scheme structures and fund types including, but not restricted to, umbrella schemes, Shariah-compliant schemes, property funds, money market funds and funds of funds. Private placement funds are designed for more sophisticated investors, which is reflected in the rules.

In addition to the following, private placement schemes are typically highly specialised and do not require any independent entity to be established, although independent custody arrangements may need to be maintained.

The key features of the QFC schemes can be highlighted as follows:

	Investors	Fund vehicle	Rules applying	Open- or closed-ended	Key entities	Investment and borrowing restrictions
Retail scheme (UCITS-type)	All	CIC or CIP	COLL COND	Open-ended	Operator: independent entity	Enforced diversification through required spreads and concentration limits Liquid investments No real estate Borrowings restricted to 10% of the scheme's property by value
Qualified investor scheme	Only qualified investors	Any	COLL COND	Open-ended	Operator: independent entity	No prescriptive requirements on spreads and concentration limits Less liquid investments allowed, including real estate property and commodities Borrowing allowed up to 100% of the scheme's property by value
Private placement scheme	Only qualified investors (less than 100)	Any	PRIV COND	Either	Operator: independent custodian	No restrictions

1.1 Collective Investment Scheme (CIS) Concepts and Terms – General

Learning Objective

6.1.1 Understand the basic concepts and key terms that apply to all collective investment schemes (COLL Parts 1.1 and 1.2 – Collective Investment Schemes and PRIV Parts 1.1 and 1.2 Division 1.2.A – Concepts Generally)

The nature of collective investment schemes and Private Placement Schemes; Participants, scheme property, units and unitholders; QFC scheme or not; Operator and independent entity; Open- and closed-ended schemes; Umbrella schemes; Qualified investors and retail customers

The basic concepts and key terms in relation to a collective investment scheme (CIS) are the same, regardless of whether they apply to retail investors, qualified investors, or private placements. The associated rules are replicated in COLL (Parts 1.1 and 1.2) and PRIV (Parts 1.1, 1.2, and 1.2A).

The rules in Chapter 1, Part 2 of the Collective Investment Schemes and Private Placement Rulebooks start by quoting the relevant section of the Financial Services Regulations, Schedule 3, Part 3, Paragraph 6.2–6.6 for the meaning of a collective investment scheme.

A 'collective investment scheme' (or scheme, or CIS) is defined as any arrangement that is a collective investment fund and meets the following criteria: the purpose or effect is to enable persons taking part in the arrangements (the participants) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of property or sums paid out of such profits or income. In addition, it needs to meet the property condition and investment conditions which are defined as follows:

a. The property condition is met if:
   1. the arrangement is made with respect to property of any description, including money, whether the participants become owners of the property or any part of it or otherwise, and
   2. any of the participants do not have day-to-day control over the management of the property, whether or not they have the right to be consulted or give directions in respect of the property.
b. The investment condition is met if:
   1. the contributions of the participants and the profits or income out of which payments to be made are pooled, and
   2. the property is managed as a whole by or on behalf of the operator of the scheme.

The participants, who effectively are the investors, are party to an arrangement whereby their contributions are placed together in a collective or pool.

Arrangements for pooling, as mentioned above in relation to separate parts of the property, are not to be regarded as a single collective investment fund unless the participants are entitled to exchange rights in one part for rights in another.

The Regulatory Authority may make rules specifying the circumstances in which particular arrangements do not constitute a collective investment fund.

A CIS that is established in the QFC may be registered as a private placement scheme that meets the following criteria:

1. it is established in the QFC
2. it is registered as a private placement scheme, and
3. it has no more than 100 **unitholders**.

In order to determine the number of unitholders, joint holders of a unit count as a single unitholder, and a unit held on trust for a beneficiary is taken to be held by the beneficiary.

1.1.1 Participants, Scheme Property, Units, Unitholders, QFC Schemes and Non-QFC Schemes

Participant

A participant in a CIS (or scheme) is a person who takes part (or is to take part) in the scheme by making a contribution to the scheme property.

Scheme Property

The scheme property of a CIS (or scheme) is the property held for or in the scheme. A property is defined as any estate or interest (whether present or future, vested or contingent, or tangible or intangible) in immovables or property of any other kind, and includes, for example:

a. money of any currency
b. bonds, securities, shares, and other negotiable or non-negotiable instruments of any kind
c. any right to interest, dividends or other income, on or accruing from or generated by immovables or property of any other kind:
d. any other things in action
e. any other charge, claim, demand, easement, encumbrance, lien, power, privilege, right, or title, recognised or protected by the law of any jurisdiction over, or in relation to, immovables or property of any other kind, and
f. any other documents evidencing title to, or to any interest in, immovables or property of any other kind.

Unit

A unit in a CIS (or scheme) is a unit representing the rights or interests (however described) of a participant in the scheme. Note that the nature of the rights or interests will differ according to the form of the scheme. If the scheme is a company, the units will be shares in the company.

Unitholder

The unitholder of a unit in a CIS (or scheme) is the person whose name is entered for the unit in the scheme's records (however described). For a QFC scheme, the name will be entered in the scheme's unitholder register, or, if the unit is a listed unit, in the Qatar Central Securities Depository's (QCSD) (or relevant exchange's) registry system.

A reference to a unitholder of a QFC retail scheme in relation to a meeting is a reference to a unitholder of the scheme as at a cut-off date for the meeting selected by:

a. if the independent entity calls the meeting – the independent entity, and
b. in any other case – the operator.

QFC Scheme A CIS (or scheme) that is established in the QFC and registered under these rules.

Non-QFC Scheme A CIS (or scheme) that is not established in the QFC.

1.1.2 Operator and Independent Entity

The 'operator' of a CIS (or scheme) is the person (however described) responsible for managing the scheme, including all of the scheme property. For a QFC scheme, this person is described in these rules as the scheme's operator, and for a non-QFC scheme, this person may, for example, be described as the scheme's manager. The operator of a QFC scheme may outsource the management of all or a part of the scheme property.

The law of the jurisdiction where the scheme is established is applied in deciding who is the person responsible for managing the scheme. The operator may also have other functions under the law of the jurisdiction where the scheme is established. For the purpose of these rules, jurisdiction is any kind of legal jurisdiction, and includes, for example, the State of Qatar, a foreign country, or the QFC or a similar jurisdiction.

The **independent entity** of a CIS (or scheme) is the person (however described) responsible for safeguarding the scheme property. For a QFC scheme, this person is described in these rules as the scheme's independent entity, and for a non-QFC scheme, this person may, for example, be described as the scheme's 'depository' or 'trustee'.

The law of the jurisdiction where the scheme is established is applied in deciding who is the person responsible for safeguarding the scheme property. The independent entity may also have other functions under the law of the jurisdiction where the scheme is established.

1.1.3 Open- and Closed-Ended Schemes

An 'open-ended scheme' is a CIS (or scheme) that permits its units to be redeemed, whether continuously or periodically. A 'closed-ended scheme' is a CIS (or scheme) that does not permit its units to be redeemed.

A CIS registered under the QFC rules must be an open-ended scheme. A private placement may either be an open-ended or a closed-ended scheme. A QFC retail scheme that is a property fund may be closed-ended or open-ended: a real estate investment trust (REIT) must be closed-ended.

1.1.4 Umbrella Schemes

An **umbrella scheme** is a collective investment scheme (or scheme) under which the contributions of the unitholders, and the profit or income out of which payments are to be made to them, are pooled separately in relation to separate parts of the scheme property. A **sub-scheme** of an umbrella scheme is a part of the scheme property that is pooled separately.

For private placements, an umbrella scheme must be an open-ended scheme.

1.1.5 Qualified Investors and Retail Customers

A person can be a qualified investor or retail customer for a QFC scheme, or an authorised firm (or for both).

A qualified investor for a QFC scheme is:

- a person who would be a business customer or market counterparty of the scheme in relation to dealings in investments that consist of, or include, units in the scheme if the scheme were an authorised firm and the person were a client of the scheme, or
- a person who is a business customer or market counterparty of any authorised firm in relation to dealings in investments that consist of, or include, units in the scheme.

A qualified investor for an authorised firm in relation to units in a scheme is a person who is a business customer or market counterparty of the firm in relation to dealings in investments that consist of, or include, units in the scheme.

A retail customer for a QFC scheme is:

- a person who would be a retail customer of the scheme in relation to dealings in investments that consist of, or include, units in the scheme if the scheme were an authorised firm and the person were a client of the scheme, or
- a person who is a retail customer of any authorised firm in relation to dealings in investments that consist of, or include, units in the scheme.

A retail customer for an authorised firm in relation to units in a scheme is a person who is a retail customer of the firm in relation to dealings in investments that consist of, or include, units in the scheme.

Private placements are only open for qualified investors.

1.2 QFC Schemes – Concepts and Terms

Learning Objective

6.1.2 Know the basic concepts and key terms that apply to QFC and non-QFC schemes (COLL Parts 1.3 and 1.4 and PRIV Part 1.2 Division 1.2.B)

Types of QFC scheme; Legal forms for QFC schemes; Particular types of QFC schemes

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1.2.1 Types of QFC Scheme

A QFC scheme registered under the collective investment scheme rules is either:

a. a qualified investor scheme, or
b. a retail scheme.

Retail schemes may be undertakings for collective investment in transferable securities directive (UCITS)-type schemes or property funds. A QFC retail scheme is a UCITS-type scheme when the constitutional document needs to state that it is a UCITS-type scheme or is a sub-scheme of an umbrella scheme that is a UCITS-type scheme.

A QFC retail scheme is a property fund if the scheme's constitutional document states it is a QFC retail property fund, or if the scheme is an umbrella scheme that is a property fund and each sub-scheme would be a property fund if it were a separate scheme.

1.2.2 Legal Forms for QFC Schemes

There are four specific legal forms, or structures, under which a collective investment fund can be registered in the QFC.

- A **collective investment company (CIC)** is a company incorporated under the Companies Regulations 2005 if its articles of association provide that the company is established for the sole purpose of constituting a CIS. If the CIC is an open-ended scheme, it must be an open-ended company with variable share capital.
- A **collective investment partnership (CIP)** is a limited partnership registered under the Partnership Regulations 2007 if its partnership agreement provides that the partnership is established for the sole purpose of constituting a collective investment scheme.
- A **collective investment trust (CIT)** is an express trust created under the Trust Regulations 2007 if its trust instrument provides that the trust is established for the sole purpose of constituting a collective investment scheme.
- Another permitted form of QFC scheme is an entity other than those already described, which is permitted if the legal form of the entity:
    1. is permitted under regulations made under the QFC Law or rules made by the Regulatory Authority or QFC Authority, or
    2. otherwise permitted under an approval, authority or licence, given by the QFC Authority under the QFC Law.

  In addition, it needs to be an instrument creating the legal form of the entity and providing that the entity is established for the sole purpose of constituting a CIS.

1.2.3 Particular Types of QFC Schemes

Three particular types of QFC schemes are identified in the COLL and PRIV rulebooks as follows:

Islamic Funds

A QFC scheme, or a sub-scheme of a QFC umbrella scheme, is an 'Islamic fund' if the constitutional document of the scheme states that the sub-scheme is an Islamic fund. For Islamic funds, the operator must prepare and keep all financial accounts and statements in accordance with the accounting standards of Financial Accounting Standard (FAS) 14 issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). It is the responsibility of the operator of an Islamic fund to ensure that at all times the fund or sub-scheme needs to have a Shariah supervisory board. Any decision relating to the appointment or dismissal of a member of the Shariah supervisory board, or to a change affecting the board, must be made by the operator and approved by the independent entity.

The constitutional document of an Islamic fund must contain a statement that the scheme (or sub-scheme) is an Islamic fund and consequently that its entire business operations are conducted in accordance with Shariah and a statement providing details of its Shariah supervisory board.

The prospectus of an Islamic fund needs to contain the general information and statements included in section 1.4 of this chapter.

In addition, the prospectus also needs to include the following information:

a. that all operations of the sub-scheme must be conducted in accordance with Shariah
b. the names of the members of the Shariah supervisory board and their qualifications and education
c. the manner and frequency of Shariah reviews
d. the disclosure required by AAOIFI FAS 14.

Specifically for retail schemes, the prospectus also needs to state that it is a UCITS scheme.

Money-Market Funds

A QFC scheme, or a sub-scheme of a QFC umbrella scheme, is a money-market fund if the constitutional document of the scheme states that the scheme or sub-scheme is a money-market fund. A money-market fund must comply with its primary investment objective, as mentioned in the constitutional document.

For the investment restrictions, an approved money-market instrument is a high-quality approved money-market instrument if it has been:

a. rated by at least one rating agency, and
b. awarded the highest available credit rating by each rating agency that has rated it.

If an approved money-market instrument forms part of the scheme property of a QFC scheme that is a money-market fund, the operator must monitor the instrument to ensure that it continues to be of high quality, taking into account both its credit risk and its final maturity. A money-market fund must provide liquidity through same-day or next-day settlement. The weighted average maturity of its investments must not exceed 60 days.

The operator must conduct a valuation of the scheme property on a mark-to-market basis at least once every week and at the same valuation point used to value the scheme property on an amortised cost basis. The operator must ensure that the value of the scheme property when valued on a mark-to-market basis does not differ by more than 0.5% from the value of the scheme property when valued on an amortised cost basis. In addition, the operator must tell the independent entity in writing whenever a valuation discloses that the mark-to-market value of the money-market fund differs from its amortised cost basis value by more than 0.1%. The independent entity and the operator must agree procedures designed to stabilise the money-market fund if the mark-to-market value of the scheme differs from its amortised cost basis value by 0.1%, 0.2% or 0.3%.

The constitutional document must contain a statement that the scheme's primary investment objective is to maintain the scheme's net asset value, specifying how this is to be maintained:

a. constant at par (net of earnings), or
b. at the value of a participant's initial capital plus earnings.

In addition, a statement needs to be incorporated stating that the scheme is a money-market scheme and, with a view to achieving the scheme's primary investment objective, the scheme may invest only in:

a. high-quality approved money-market instruments, and
b. on an ancillary basis, deposits with eligible banks.

Other Types of QFC Schemes

A variety of other QFC schemes are permitted such as feeder funds, fund of funds and property funds.

Non-QFC Schemes

A non-QFC scheme is a retail customer scheme if it is a non-QFC scheme declared to be a retail customer scheme by the Regulatory Authority, via a written notice published on an approved website. A non-QFC scheme which is not a retail customer scheme is a qualified client scheme.

1.3 Constitutional Document Requirements

Learning Objective

6.1.3 Know the constitutional requirements relating to QFC schemes' constitutional documents (COLL Part 3.1 Rules 3.1.1–3.1.3 and PRIV Part 3.1 Rules 3.1.1–3.1.3)

[Candidates are not expected to know the requirements of COLL Schedule 2 or PRIV Schedule 1] Rule 3.1.1 – What is the constitutional document for a QFC scheme; Rule 3.1.2 – Matters to be included in a constitutional document; Rule 3.1.3 – Relationship between constitutional document and the rules

The constitutional document, for a QFC scheme, is for:

a. a **CIC** – the articles of association of the company
b. a **CIP** – the partnership agreement of the partnership
c. a **CIT** – the trust instrument of the trust, and
d. another permitted form of QFC scheme – any instrument creating the legal form of the entity.

The constitutional document of a QFC scheme must include the statements and provisions required by the relevant schedules for collective investment schemes (COLL, Schedule 2 – Constitutional Document Content) and private placements (PRIV, Schedule 1 – Constitutional Document Content), the content of which is outside the scope of this workbook.

The constitutional document of a QFC scheme must not contain any provision that:

a. conflicts with any provision of these rules, or
b. is unfairly prejudicial to the interest of unitholders generally or to the unitholders of any class of units.

Provisions of the constitutional document have no effect if they conflict with the rules.

However, a provision of the constitutional document of a QFC scheme must not be taken to conflict with a provision of these rules, to the extent it can operate concurrently with the provision of these rules.

Any power given by these rules to a QFC scheme, or to the operator or independent entity of a QFC scheme, is subject to any applicable condition, restriction or requirement in the scheme's constitutional document.

1.4 Prospectus Requirements

Learning Objective

6.1.4 Know the prospectus requirements relating to QFC schemes (COLL Part 5.2 Rules 5.2.1 to 5.2.4 and PRIV Part 5.2 Rules 5.2.1 to 5.2.4)

1.4.1 Content Requirements

The operator of a collective investment scheme or private placement scheme must ensure that a prospectus is drawn up for the scheme in accordance with the rules. The **latest filed prospectus**, and the latest filed translation of the prospectus in each language for which there is a translation prepared by or for the operator, must be made available free of charge to any person eligible to invest in the scheme before the person buys units (or additional units) in the scheme.

For a UCITS-type scheme, the operator must also, on the request of a unitholder, provide the following information:

a. the quantitative limits applying to the risk management of the scheme
b. the methods used in relation to risk management
c. any recent developments in relation to the risk and yield of the main categories of investment.

The operator of a QFC scheme must ensure that the scheme's prospectus at all times contains all the information that investors and their professional advisers reasonably require, and reasonably expect to have drawn to their attention, in the prospectus for the purpose of making an informed judgement about:

a. the merits and risks of participating in the scheme, and
b. the extent and characteristics of the risks accepted by participating in the scheme.

In addition, the operator must ensure that at all times the prospectus contains a clear and easily understandable explanation of any risks that investment in the scheme may reasonably be regarded as presenting to investors in the scheme. The prospectus must include the information, statements and provisions required for the scheme as follows:

1. **Schedule 3** – for qualified investor schemes.
2. **Schedule 4** – for retail schemes other than a REIT.
3. **Schedule 5** – for REITs.

The prospectus for the scheme must be in English: it must clearly and fairly present the information, it must not contain any untrue or misleading statements, and it must comply with QFC rules.

In the event that the operator prepares, or arranges for the preparation of, a translation of the prospectus in any other language, they must ensure that any translation of a prospectus prepared by or for the operator:

a. presents information about the scheme clearly and fairly
b. does not contain any untrue or misleading statement
c. is otherwise a correct translation
d. prominently displays the date of the translation
e. states that it is a translation authorised by the operator, and
f. otherwise complies with these rules.

2. Governance and Controlled Functions Rules (CTRL)

2.1 Governance Principles

Learning Objective

6.2.1 Know the governance principles

Rule 2.1.1 – Role of governing body; Rule 2.1.2 – Role of senior management; Rule 2.1.3 – Knowledge, skills and expertise; Rule 2.1.4 – Review

It is the responsibility of the board of directors of an authorised firm that is a company to approve a corporate governance framework for the firm that is appropriate to the nature, scale and complexity of the firm's business, and the board is ultimately responsible for ensuring that the firm carries out the firm's obligations. If the firm is not established as a company, this is the responsibility of the membership, committee of management or other body described in its constitutional document.

Senior management of the authorised firm must ensure that corporate governance is effectively implemented and maintained throughout the firm's business.

The governing body, as senior management, must have an appropriate mix of knowledge, skills and expertise to ensure effective management of the firm commensurate with the nature, scale and complexity of the business.

The majority of the board of directors of a firm established as a company need to be non-executive directors. The governing body of an authorised firm must ensure that the firm reviews its corporate governance framework and risk management and internal controls framework appropriately and with sufficient frequency to ensure that the framework remains effective and that the functions within the frameworks remain independent. If necessary, corrective action will need to be taken.

2.2 Obligations of the Governing Body

Learning Objective

6.2.2 Know a firm's governing body's obligations

Rule 2.2.1 – What is a firm's governing body; Rule 2.2.2 – Governing body's role; Rule 2.2.3 – Obligation to approve and update plans; Rule 2.2.4 – Obligation to approve risk management and internal controls framework; Rule 2.2.5 – Obligation to allocate responsibilities; Rule 2.2.6 – Obligation relating to appointment of individuals for certain functions; Rule 2.2.7 – Obligation to establish remuneration policy; Rule 2.2.8 – Obligation to have business continuity procedures; Rule 2.2.9 – Obligation relating to conflicts of interest; Rule 2.2.10 – Obligation relating to periodic review

A firm's governing body depends on the type of firm as follows:

1. for a QFC entity or partnership constituted under the Partnership Regulations of 2007, the board of directors (or its equivalent) with responsibility to oversee the firm's business in or from the QFC
2. for a branch, any of the below in the following order:
   a. the part of the board of directors of the firm with the responsibility of overseeing the firm's business in or from the QFC
   b. any other body with this responsibility, or
   c. the person to whom this responsibility is delegated.

The corporate governance framework of an authorised firm deals with the relationships between a firm's board, its senior management, depositors, policyholders, clients and other stakeholders. It includes the firm's objectives and the means of achieving them, and the risk management and internal controls framework. Other important aspects of corporate governance are the separation of functions within the firm and the accountabilities for the internal control functions. The governing body of an authorised firm is responsible for:

a. approving the corporate governance framework through which the firm is managed and controlled
b. ensuring the firm's financial soundness and maintaining transparency and disclosure
c. being mindful of the legitimate interests of depositors, policyholders, clients and other stakeholders when making decisions, and
d. considering how it can best perform its role, including whether to create one or more committees to make recommendations to the body on matters required to be decided by it.

The corporate governance framework is made up of the structures, policies, procedures and controls of the firm.

2.2.1 Governing Body Obligations

- Approve strategic and business plans appropriate to the nature, scale and complexity of the business. These plans may be combined in a single document and need to be updated regularly to take account of changes in the business environment.
- Approve the firm's risk management and internal controls framework which includes risk management, compliance oversight, internal audit and actuarial functions.
- Take reasonable care to maintain a clear and appropriate allocation of responsibilities between the body and the firm's senior management. The allocation must be in writing and must state whether each significant responsibility is a responsibility of the governing body or senior management. For each of the firm's functions or **controlled functions** (other than the internal control functions) it needs to be determined whether they report to the governing body or one of its committees. The allocation must consider whether the individuals who make up the firm's senior management ought to be ordinarily resident in Qatar to adequately exercise their functions, and that the firm's business can be adequately managed by the body and the senior management.
- Decide the appointment, performance assessment, remuneration, disciplining and dismissal of the individuals approved for senior management and internal auditor. Any decisions in this respect for the individuals approved to exercise the **risk management function**, compliance oversight function or actuarial function for a firm may be made by the governing body, the governing body's relevant committee, or senior management in consultation with the governing body or its relevant committee.
- Establish and maintain for itself and the whole firm a remuneration policy appropriate to the nature, scale and complexity of the firm's business. The policy must set out the objectives and structure of the firm's remuneration arrangements, including the objectives and structure of any performance-based component: performance measures that are in line with the firm's risk management strategy: eligibility for, and timing of, payments that take into account the timeframes within which risks associated with the performance are likely to materialise, and forms and mix of remuneration that are consistent with sound risk management and performance-based rewards. A performance-based component of a (class of) person's remuneration must be permitted:
    - to be deferred or reduced (including reduced to zero) if necessary to protect the firm's financial soundness (for example, in circumstances of subdued or negative financial performance of the firm), or to respond to significant unexpected or unintended consequences of the firm's activities, and
    - to be returned if the firm is later satisfied that the person failed to meet the performance measures for the function: or the person's excessive risk-taking contributed in a material way to the firm's negative financial performance.

  The policy must prohibit a person who has received from the firm any equity or equity-linked deferred remuneration from hedging their economic exposures to the resultant equity price risk before the equity or equity-linked remuneration is fully vested and able to be sold for cash. A remuneration package offered by the firm, including any performance-based component must:
    - encourage behaviour that supports the firm's long-term financial soundness and its risk management strategy, and
    - align remuneration with prudent risk-taking, and
    - incorporate adjustments to reflect the outcomes of the firm's activities, the risks related to those activities, taking account of the cost of the associated capital, and the time necessary for the outcomes of those activities to be reliably measured.

Guaranteed bonuses are not consistent with sound risk management and performance-based rewards and should not be offered. Remuneration payments must be linked to performance over time and designed in a way that does not reward failure. Deferral of payment needs to take into account the time frame within which risks associated with the person's performance may materialise.

- The remuneration policy must be periodically reviewed.
- Establish procedures to ensure, so far as practicable, that the firm can continue to fulfil its obligations under the law applicable in the QFC in the event of an interruption. The procedures must be reviewed and tested at such intervals determined by the governing body. The interval between tests must be appropriate to the nature, scale and complexity of the firm's business but must not be longer than 18 months. The Regulatory Authority may direct the firm to test its procedures at any time and in a way that the authority considers appropriate.
- Ensure that each part of the firm's corporate governance framework and risk management and internal controls framework is designed to avoid conflicts of interest in relation to the framework (or, if this is not possible, to mitigate such conflicts), and to effectively deal with any conflict of interest. Any conflicts of interest must be reported to senior management of the firm or the branch and if it is not addressed within a reasonable time by the senior management, it needs to be reported to the firm's governing body. Every six months, the senior management must give to the firm's governing body a written summary of all conflicts of interest addressed by the senior management during the period. Conflicts of interest involving a member of the firm's governing body need to be dealt with under the governing body's own conflicts policy, governance manual or terms of reference.
- Ensure that the governance, and risk management and internal controls frameworks are reviewed at least once every three years by the firm's internal auditor or an independent and objective external reviewer. The person who carries out the review must report in writing to the body within 30 days after the review is completed. A copy of the report must be provided to the Regulatory Authority within 30 days after the firm's governing body receives the report. The authority may direct that reviews are carried out more frequently.

2.3 Controlled Functions

Learning Objective

6.2.3 Know the ten controlled functions

Rule 3.1.1 – What Functions are Controlled Functions?; Rule 3.1.2 – What is the Non-Executive Governance Function?; Rule 3.1.3 – What is the Executive Governance Function?; Rule 3.1.4 – What is the Senior Executive Function?; Rule 3.1.5 – What is the Finance Function?; Rule 3.1.6 – What is the Senior Management Function?; Rule 3.1.7 – What is the MLRO Function?; Rule 3.1.8 – What is the Risk Management Function?; Rule 3.1.9 – What is the Compliance Oversight Function?; Rule 3.1.10 – What is the Internal Audit Function?; Rule 3.1.11 – What is the Actuarial Function?

The following functions are identified as controlled functions:

- **Non-executive governance function** – the function of holding a position on the governing body of an authorised firm that is a QFC entity but not having responsibility for the day-to-day direction of the firm's affairs.

- **Executive governance function** – for an authorised firm that is a QFC entity, this is the function of acting in the capacity of a director, other than a non-executive director, of the firm. For an authorised firm that is a branch, this is the function of acting in the capacity of a director with responsibility for the firm's business in or from the QFC.
- **Senior executive function** – the function of having responsibility for the whole business of the firm: or in the case of a non-local firm, the business of the firm carried on in or from the QFC.
- **Finance function** – includes the function of being responsible for the prudential returns that the firm is required to prepare.
- **Senior management function** – for an authorised firm this is the function of being responsible (alone or with others) for managing and supervising a part or parts of the firm's business related to its regulated activities other than any of the other controlled functions. This person may report directly to the senior executive, a person overseeing the senior executive function, a person with overall responsibility for the day-to-day management of the firm's business in or from the QFC, or a person who exercises specific risk functions and who reports to the group risk management function.
- **Money laundering report officer (MLRO) function** – the function of being the firm's MLRO under AML/CTFR or AMLG.
- **Compliance oversight function** – the function of having responsibility for the firm's compliance policies, procedures and controls, and for taking appropriate steps to ensure the implementation of and compliance with those policies, procedures and controls.
- **Risk management function** – the function of having responsibility for the firm's risk management policies, procedures and controls, and for taking appropriate steps to ensure the implementation of and compliance with those policies, procedures and controls.
- **Internal audit function** – the function of having responsibility for the firm's internal audit policies, procedures and controls, and for taking appropriate steps to ensure the implementation of and compliance with those policies, procedures and controls.
- **Actuarial function** – the function of having responsibility for the firm's actuarial policies, procedures and controls, and for taking appropriate steps to ensure the implementation of, and compliance with, those policies, procedures and controls.

Four of the above mentioned controlled functions are internal control functions:

1. compliance oversight function
2. risk management function
3. internal audit function
4. actuarial function.

2.4 Outsourcing

Learning Objectives

6.2.4 Know the rules related to the outsourcing of functions

Rule 5.1.2 – Obligation to have an outsourcing policy; Rule 5.1.3 – Responsibility for outsourced functions

6.2.5 Know the rules relating to material outsourcing arrangements

Rule 5.2.1 – Due skill in material outsourcing arrangements; Rule 5.2.2 – Written agreement required for material outsourcing arrangements; Rule 5.2.3 – Regulatory Authority to be notified of certain matters

The outsourcing policy established and maintained by an authorised firm's governing body must at least provide for whether the firm will outsource any function at all, and what functions may be outsourced. At least once every two years, the policies and procedures need to be reviewed including the procedures for assessing the feasibility of a proposed outsourcing and the risks that the outsourcing poses to the firm's business, eg, costing any proposed material outsourcing and the criteria for selecting service providers.

Outsourcing of a function does not relieve the firm's governing body from any obligation in relation to the function under the law applicable in the QFC. The governing body remains responsible for ensuring that all requirements are complied with in relation to the function, and that the function is otherwise properly exercised. The governing body must exercise due skill, care and diligence in carrying out its obligations in relation to outsourced functions.

In this context, **material outsourcing** means the outsourcing of a function of such importance that weakness or failure in the exercise of the function would cast serious doubt on the firm's ability to comply with any regulations, rules or principles, or any condition, restriction or requirement of its authorisation. In addition, it may cast doubt on financial performance or position, or the ability to continue in business.

Before entering into a material outsourcing arrangement, the senior management must ensure that the service provider selected has the ability and capacity to perform the relevant function reliably and professionally at the start and during the life cycle of the outsourcing, and assess the risks that the outsourcing poses to the firm's business. At a minimum the following needs to be taken into consideration:

a. whether the service provider is regulated, to what extent, and by whom
b. whether the function is subject to specific regulation or supervision
c. the risk that the service provider's service may become unavailable because of the number of other persons using the service provider
d. the financial stability and expertise of the service provider
e. any conflict of interest that might arise from the provision of the function by the service provider.

The agreement with the service provider must be in writing and require the service provider to:

a. deal with the Regulatory Authority in an open and co-operative way in relation to matters relating to the firm under the material outsourcing, and
b. grant the Regulatory Authority access to the firm's books, records and data in the possession or control of the service provider.

An authorised firm must not enter into a material outsourcing agreement unless it notifies the Regulatory Authority of its intention to do so at least 30 days prior to the day they enter into the agreement. If the arrangement permits sub-contracting to a third party, the firm must notify the Regulatory Authority of this.

3. General Rulebook

Learning Objective

6.3.1 Know the fitness and propriety criteria that apply to a person who wishes to become an authorised firm (Rules under Chapter 2)

Rule 2.1 – Application; Rule 2.2 – General Provisions; Rule 2.3 – Fitness and Propriety

Under the Financial Services Regulations (FSR), the Regulatory Authority sets the rules which provide it with the power to assess an applicant in meeting the fitness and propriety criteria as minimum standards before authorisation can be given, and to be able to demonstrate meeting the criteria on an ongoing basis. The rules include criteria including fitness and propriety, legal form, resources, systems and controls and location of offices of an applicant. The purpose of the fitness and propriety criteria is to set out the minimum criteria that a person must meet for it to become and remain authorised. It also enables the Regulatory Authority to ensure that its regulation of authorised firms is not impeded as a result of:

- the authorised firm's group structure or internal administration
- any other laws, regulations or administrative provisions of another jurisdiction to which the authorised firm is subject, or
- an inability or unwillingness to comply, on an ongoing basis with the requirements imposed by the regulatory system.

In addition, the fitness and propriety criteria summarise some of the areas that the Regulatory Authority will consider during the assessment of an applicant for authorisation. Also, as part of its supervisory approach, the Regulatory Authority will monitor whether an authorised firm continues to meet the fitness and propriety requirements. The Regulatory Authority may impose conditions or withdraw the authorised firm's authorisation if it fails to satisfy the fitness and propriety criteria.

Failure to meet the fitness and propriety criteria following authorisation can result in conditions being applied to authorisation or withdrawal of the authorisation by the Regulatory Authority.

In considering the fitness and propriety of an applicant or authorised firm, the Regulatory Authority will consider:

- controllers – the applicant's or authorised firm's connection with its controllers
- close links and other connections – the applicant's or authorised firm's close links with another person or connection with any other person including any person appearing to be, or likely to be in a contractual relationship with the applicant or authorised firm
- regulated activities – the nature of the regulated activities concerned
- prudence – whether the applicant's or authorised firm's affairs will be or are conducted and managed in a sound and prudent manner
- the location of offices – the location and jurisdiction of the applicant or authorised firm's head office and registered office and the location and jurisdiction of its **parent entity**
- legal form – the legal form that the applicant intends to adopt in light of the location of its offices and of the regulated activities concerned, and
- other matters contained in GENE Schedule 1. Note that the content of GENE Schedule 1 is not examinable.

3.1 Authorised Firm Rules

Learning Objective

6.3.2 Know the rules that relate to an authorised firm in the following areas

Rules 3.1.1 and 3.1.2 – Disclosure of regulatory status; Rules 4.1.1 and 4.1.2 – Change in core details; Rules 6.2.1–6.2.6 – Maintenance of Records

3.1.1 Disclosure of Regulatory Status

The rule sets out the wording required to be used when an authorised firm shows its regulatory status on its business documents. This rule is referred to throughout the QFCRA Rulebooks in general.

The use of the correct wording to show a firm's regulatory status is critical in avoiding any misrepresentation of that status, nor can the wording be used by a firm which is not authorised. An authorised firm must not misrepresent its regulatory status expressly or by implication.

The rule requires a firm to take reasonable care to ensure that all business documents used in the execution of a firm's regulated activities in the QFC include one of the following disclosures:

- 'Authorised by the Qatar Financial Centre Regulatory Authority', or
- 'Authorised by the QFC Regulatory Authority'.

Business documents include, but are not limited to:

- letterheads (post, fax or electronic)
- terms of business
- client agreements
- written **financial communications**

- business cards
- prospectuses, and
- websites.

Items which are not included under this rule requirement are:

- compliments slips
- account statements, and
- text messages.

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3.1.2 Changes in Core Details

An authorised firm must give the Regulatory Authority reasonable notice of at least ten business days before any proposed change in relation to a matter set out in this section. If the authorised firm cannot give ten business days' advance notice it must inform the Regulatory Authority about the change immediately after it becomes aware that the change is to happen or has happened, but no later than the second business day after the day it becomes aware of the change. This applies to each of the following changes:

- a change of name to the authorised firm
- a change of business or trading name under which any regulated activities are conducted in, or from, the QFC
- a change of address of the firm's principal place of business in the QFC
- if the firm is a branch – its registered office or head office address
- any change to the firm's legal structure
- a change to the name of an approved individual or a material matter relating to the approved individual's suitability and competence to exercise a controlled function for which the individual is approved.

A **local firm** must not establish or close a branch office anywhere in the world from which it proposes to conduct, or conducts, financial services unless it has given notice to the Regulatory Authority of its intention to do so at least ten business days before the day it establishes, or closes the branch office.

3.1.3 Maintenance of Records

The maintenance of records section in the GENE Rulebook applies to all records an authorised firm is required to keep under any regulations or rules.

All records must be capable of being reproduced in paper form within a reasonable period, not exceeding three days.

In circumstances when a firm maintains records on an ongoing basis, it has to consider requirements for preservation, confidentiality, security, and the frequency and ease of access required.

With the exception of records relating to an authorised firm's activities which are not regulated activities in or from the QFC, all records need to be maintained in English. However, if records related to activities outside the QFC which are not in English have to be provided to the Regulatory Authority, they must be reproduced in English within seven days.

If a firm keeps copy documents, rather than originals, the copies must be certified. Certification of documents will be accepted in the following ways:

- for documents produced or issued by the authorised firm itself – a document must be signed by a director or secretary of the authorised firm
- for a document issued by a public body which has responsibility for maintaining the original document – it must be signed by a person appropriately authorised by that public body
- for any other document – it must be signed by a person having the authority to certify official documents in the jurisdiction in which certification takes place.

Unless otherwise stated in a specific provision, all records and documents must be maintained by an authorised firm for at least six years.

3.2 Reporting to the Regulatory Authority

Learning Objective

6.3.3 Know which events should be reported by an authorised firm to the Regulatory Authority

Rule 4.1.3 – Significant events; Rule 4.1.4 – Fraud and errors; Rule 4.1.5 – Actions by other regulators; Rule 4.1.6 – Action Against the Firm; Rule 4.1.7 – Winding up, bankruptcy and insolvency

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3.2.1 Significant Events

If an authorised firm becomes aware, or has reasonable grounds to believe, that a matter to which this rule applies has or may have happened, or may be about to happen, the firm must tell the Regulatory Authority about the matter immediately, but within one business day. This applies to the following events:

a. the authorised firm's failure to satisfy fitness and propriety
b. any matter which could have a significant adverse effect on the authorised firm's reputation
c. any matter in relation to the authorised firm which could result in serious adverse financial consequences to the financial system, or to other firms
d. a significant breach of a rule by the authorised firm or any of its employees
e. a significant breach of any requirement imposed by any applicable regulation or other law by the authorised firm or any of its employees, and
f. any proposed restructuring, merger, acquisition, reorganisation or business expansion which could have a significant impact on the authorised firm's risk profile or resources such as, for example, any material change in the firm's controllers
g. any material deficiency, material weakness or material failure in the firm's internal control functions
h. any action that would result in a material change in the capital adequacy or solvency of the authorised firm

i. a contravention of any rules by the firm because of an emergency outside the firm's control
j. the implementation or planned implementation of major new or revised information technology systems or new technology affecting the firm's business, risk profile or resources.

3.2.2 Fraud

In terms of any fraud, a firm must advise the Regulatory Authority immediately, at most within one business day after the event happens if:

- the authorised firm becomes aware that an employee may have committed fraud against one of the firm's customers
- a serious fraud has been committed against the authorised firm
- the authorised firm has reason to believe that a person is acting with intent to commit a serious fraud against it
- the authorised firm identifies significant irregularities in its accounting or other records whether or not this is evidence of fraud
- the authorised firm suspects that an employee connected with the authorised firm's regulated activities may be guilty of serious misconduct, bringing the employee's honesty and integrity into question.

3.2.3 Actions by Other Regulators

If an authorised firm becomes aware of events involving other regulators, the firm must tell the Regulatory Authority about the event immediately, at most within one business day. This applies to the following events:

a. an application by the authorised firm for, or for revocation of, an authorisation (however described) to conduct financial services in any jurisdiction outside the QFC is granted, refused or withdrawn (however described)
b. an application by the firm for, or for revocation of, membership of any exchange or clearing house is granted, refused or withdrawn (however described)
c. an overseas regulator starts an investigation (however described) into any of the firm's affairs
d. an overseas regulator appoints investigators (however described) to investigate any of the firm's affairs
e. disciplinary measures or sanctions (however described) are imposed on the firm by an overseas regulator, or any exchange or clearing house, in relation to its conduct of financial services.

3.2.4 Action Against the Firm

A firm is required also to advise the Regulatory Authority immediately, at most within one business day, if:

- civil proceedings are being brought against the authorised firm and the amount involved is significant in respect of the firm's financial resources or reputation
- the firm is prosecuted for, or convicted of, any offence which involves fraud or dishonesty
- any penalties are being imposed upon it for tax evasion.

3.2.5 Winding Up, Bankruptcy and Insolvency

If an authorised firm becomes aware of any of the below events, the firm must tell the Regulatory Authority about the event immediately, at most within one business day:

a. the calling of a meeting to consider a resolution for winding up the authorised firm
b. an application to dissolve the authorised firm or to strike it from the register maintained by the Companies Registration Office (CRO), or a comparable register in another jurisdiction
c. the presentation of a petition for the winding up of the authorised firm
d. the making of, or any proposals for the making of, a composition or arrangement with creditors of the authorised firm
e. the application of any person for the commencement of any insolvency proceedings, appointment of any receiver, administrator or provisional liquidator under the law of any country.

3.3 Protected Reporting

Learning Objective

6.3.4 Know the general requirements relating to protected reporting

Rule 4A.1.1 – Introductory; Rule 4A1.2 – Meaning of protected report and protected reporter; Rule 4A.1.3 – Reports to be treated as protected until contrary established

6.3.5 Know the rules relating to protected reporting policies

Rule 4A.2.1 – Obligation to have protected reporting policy; Rule 4A.2.2 – Content of protected reporting policy; Rule 4A.2.3 – Implementation of protected reporting policy

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Protected reporting relates to confidential reports about alleged wrongdoing by authorised firms or persons connected with them. It is also known as whistleblowing. The maker of a protected report is often (but not necessarily) an employee of the firm concerned. In this context, a protected reporter is the person who makes the report. A protected report is a report that meets all of the following requirements:

a. it is made in good faith meaning the individual who made the report believes on reasonable grounds that it is true
b. it is about an authorised firm or a person connected with such a firm
c. it is made to the firm itself, or an authority or:
    - an officer of the authorised firm concerned
    - an officer of the Regulatory Authority
    - an officer of the State to whom crimes may be reported under Law No (23) of 2004, or whose responsibilities include the matters that are referred to in the report, or
    - a regulatory or governmental authority, body or agency in a jurisdiction outside the QFC (whether in Qatar or not), including a body or officeholder responsible for enforcing the criminal law of the jurisdiction.
d. if it is made to an authority or officer, the authority or officer is responsible for matters of the kind reported

e. it gives information that the reporter believes shows that any of the following has happened, is happening, or is likely to happen:
    - a criminal offence (whether under the law of Qatar or of another jurisdiction)
    - a contravention of a relevant requirement, or a failure to comply with a legal obligation of another kind. Note that for contravention of a relevant requirement, see FSR, article 84.
    - the endangering of the health and safety of an individual
    - a breach of an authorised firm's policies and procedures (including, for example, a breach of any code of conduct or policy in relation to ethical behaviour)
    - the deliberate concealment of a matter referred to in any of the above bullets.

When an authorised firm receives a report that purports to be a protected report, the firm must treat the report as such, and the reporter as a protected reporter until the firm has fully investigated the matter and has decided the report is not a protected report. An individual must be treated as a protected reporter if the firm becomes aware the individual has made a report that purports to be a protected report about the firm to an authority or officer specified above.

3.3.1 Policy

The firm must have written policies in place on protected reporting. These policies need to be approved by the firm's governing body, and need to be appropriate for the nature, scale and complexity of the firm's business. The policy must:

- provide two or more independent channels for making a protected report
- provide for such a report to be made in a language other than English, if appropriate
- recognise that such a report could be made by anybody with the necessary information (not only by an officer or employee)
- allow a protected report to be made anonymously
- provide for the identity of a protected reporter to be kept confidential (as far as possible)
- provide for reasonable measures to protect a protected reporter, anyone who assists in investigating a protected report, and anyone who cooperates with the investigation, against retaliation
- explicitly recognise a protected reporter's right (and, in certain cases, obligation) to report to, or communicate with, the Regulatory Authority, another regulator or an authority of the State
- provide a suitable set of guiding principles, and clear procedures, for the assessment, investigation and escalation of a protected report
- provide for the investigation of a protected report to be independent of the individual or business unit concerned
- provide for a protected report to be acknowledged, and for the protected reporter who made it to be kept informed (to the extent that is appropriate in the circumstances) about the progress and outcome of the investigation
- provide for the reporting, monitoring and investigation of retaliation, attempts at retaliation and threats of retaliation
- provide for retaliation, an attempt at retaliation, or a threat of retaliation to be treated as gross misconduct
- provide for appropriate reporting to the firm's governing body and the Regulatory Authority about protected reports, the investigation of such reports and the outcome of any investigations.

The policy must clearly be set out in a document and be accessible to, and understood by, all of the firm's employees and officers. In addition, the policy needs to clearly state the benefits of the policy to the firm, and the firm's commitment to it.

It is the responsibility of senior management of the firm to ensure the policy is fully implemented, and that reasonable steps are taken to ensure the protected reporter as well as anyone assisting or cooperating in the investigation, are protected against retaliation. An appropriately senior individual must be nominated to oversee the implementation of the policy, and the policy needs to be reviewed at least once every three years by the firm's internal auditor, or an independent and objective external reviewer.

Regular training must be provided to all officers and employees in relation to the protected reporting policies and applicable procedures, including specialist training for the officers and employees responsible for key elements of the policy. The implementation of the protected reporting policy may be outsourced, but the firm needs to nominate the senior manager responsible, and otherwise provide appropriately for the implementation of the firm's obligations under the policy.

When a protected report is received, the firm must notify the Regulatory Authority within five business days.

3.4 Controllers

Learning Objective

6.3.6 Know the general provisions relating to controllers and close links

Rule 8.1.1 – Introduction; Rule 8.1.2 – Application; Rule 8.1.3 – Meaning of controller, types of control and first becoming a controller; Rule 8.1.4 – Meaning of increases in control; Rule 8.1.5 – Meaning of decreases in control; Rule 8.1.6 – Meaning of voting power and control

6.3.7 Know the rules that apply when an authorised firm seeks approval to change control

Rule 8.2.2 – Approval to change control – QFC entities; Rule 8.2.3 – Controller notice seeing approval to change control – QFC entities; Rule 8.2.4 – additional requirement – letter of comfort; Rule 8.2.5 – Approval process; Rule 8.2.6 – Objection process; Rule 8.2.7 – When approved proposal lapses

6.3.8 Know the rules that apply when an authorised firm applies to change control of its branches

Rule 8.3.2 – Controller notice about changes in control of branches

6.3.9 Know the requirements to give notice about controllers

Rule 8.4.2 – Significant changes in controllers

3.4.1 General Requirements

This rule applies to controllers of applicants for authorisation and authorised firms, and the entities with which such applicants and firms have close links. The rule covers the obligations and procedures relating to first becoming such a controller and any change in control, as well as the systems and controls that a firm must have, and the reports it must make, relating to its controllers and the entities with which it has close links.

A controller is a person who, alone or with associates, acquires, or changes their level or type of control over a firm. For this purpose, the definition of control is provided in Article 37 of the Financial Services Regulation (FSR). A person acquires control over an authorised firm when they:

- hold 10% or more of the shares in the authorised firm
- are entitled to exercise, or control the exercise of, 10% or more of the voting power in the authorised firm
- hold 10% or more of the shares in a parent entity of the authorised firm
- are entitled to exercise, or control the exercise of, 10% or more of the voting power in a parent entity of the authorised firm
- are able to exercise significant influence over the management of the authorised firm, or a parent entity of the authorised firm, by virtue of their shareholding or voting power, or by contractual or other arrangements
- are able to exercise, or control the exercise of, 10% or more of the voting power in the firm because of the person's shareholding or voting power in a third party that holds 10% or more of the shares of the firm
- are able to exercise significant influence over the management of the firm because of the person's shareholding or voting power in a third party that holds 10% or more of the shares of the firm.

In determining whether a person is a controller of an authorised firm, any shares, voting power or rights to acquire shares or voting power that the person(s) holds in the firm must be disregarded if:

a. the shares are held for the sole purpose of clearing and settling within a short settlement cycle
b. the shares are held as custodian or nominee, and the voting power attached to the shares is exercised only in accordance with written instructions given to the person, or
c. the person is an authorised firm and it:
    1. acquires shares as a result of an underwriting of a share issue or a placement of shares on a firm commitment basis
    2. does not exercise the voting power attached to the shares or otherwise intervene in the management of the issuer, and
    3. retains the shares for less than one year.

A person first becomes a 'controller' when they become a controller of the firm for the first time or when they previously have been a controller and become one again.

A controller increases control over an authorised firm if:

- they acquire a different type of control over the firm
- they become the parent entity of the firm
- they increase their percentage of shares held in the firm or a parent entity from, or below, 24%, 49%, or 74%, to above that level, or
- the percentage of voting power that the controller is entitled to exercise, or control the exercise of, in the firm, or in a parent entity of the firm, increases from, or below, 24%, 49% or 74% to above that level.

A controller decreases control over an authorised firm if:

- they lose a type of control over the firm
- they cease to be the parent entity of the firm
- they decrease their percentage of shares held in the firm or a parent entity from, or above, 24%, 49%, or 74% to below that level, or
- the percentage of voting power that the controller is entitled to exercise, or control the exercise of, in the firm or in a parent entity of the firm increases from, or above, 24%, 49% or 74% to below that level.

In this context, 'voting power' means the total rights of the person to vote, or take part in any decision-making, about any of the following:

a. the distribution of capital or profits of the firm to its shareholders
b. the articles of association, partnership agreement or similar document constituting the firm or governing its activities
c. any variation of the share capital of the firm
d. any appointment of a director (however called) of the firm
e. the overall policy of the firm.

A person's voting power includes voting power:

- held by a third party with whom the person has concluded an agreement that obliges the person and the third party to adopt, by concerted exercise of the voting power they hold, a lasting common policy towards the management of the firm or parent entity
- held by a third party under an agreement concluded with the person providing for the temporary transfer, for consideration, of the voting power
- attaching to shares that are lodged as collateral with the person, if the person controls the voting power and declares an intention to exercise it
- attaching to shares in which the person has a life interest
- held, or may be exercised in any of the ways described in paragraphs (a) to (d), by a subsidiary of the person
- attaching to shares deposited with the person that the person has discretion to exercise in the absence of specific instructions from the shareholders
- held in the name of a third party on behalf of the person, and
- that the person may exercise as a proxy where the person has discretion about the exercise of the voting power in the absence of specific instructions from the shareholders.

In the context of voting power, control includes direct and indirect control, as well as control that is exercisable as a result, or by means, of arrangements or practices whether or not having legal or equitable force: and whether or not based on legal or equitable rights.

If the percentage of total rights to vote, or participate, in decision-making differs as between different types of voting or decision-making, the highest of those percentages applies for the purposes of this rule.

Members and policyholders of firms or parent entities that are limited both by shares and guarantee, or do not have share capital, are considered to be shareholders in relation to voting rights and controls.

3.4.2 Change in Control – QFC Entities

This rule applies to authorised firms that are a QFC entity.

Prior approval from the regulatory authority is required before a person can become a controller, or their control over an authorised firm can be increased or decreased. A controller notice must be given to the Regulatory Authority in the approved form. The controller notice serves as an application for approval. In the event the firm is not aware, or has insufficient information about a person becoming or changing control, the notice must be provided by the person who is proposing to first become a controller or change their control. In the event a firm has reasonable grounds to suspect that a person is becoming a controller or change their control, they must make appropriate inquiries to satisfy themselves whether this is the case and decide if they should give a controller notice.

A controller notice must be given at least 30 days before the person first becomes a controller or increases or decreases control, or if this is not practicable, immediately after the firm or person required to give the notice becomes aware. Notices may be withdrawn at any time before the authority decides on the application for approval. In the event the firm or person, at any time before the authority makes a decision regarding the proposal, become aware of a change that is reasonably likely to be material to the Regulatory Authority's decision, the firm or person must notify the authority about the change without delay.

A controller notice seeking approval to increase exiting control from a level of 10–48.99% to a level above 49%, or a change from a level between 10–73.99% to a level above 74%, must be accompanied by a letter of comfort. The rule specifically notes that by giving a letter of comfort when a controller crosses the thresholds at 49% and 74%, the controller signifies its continuing willingness and commitment to support the firm in case of unforeseen contingencies that may affect the firm's ability to maintain adequate capital and liquidity levels in order to meet its obligations and regulatory requirements. In addition, the Regulatory Authority may require a letter of comfort for increases in control from a level of 10–23.99% to a level up to 48.99%.

A letter of comfort must be in a form acceptable to the Authority and must state that the person:

- has adequate financial resources to fulfil its commitments under the letter
- will support the firm:
  - to conduct its business under the applicable laws, regulations and rules, and
  - to enable it, at all times, to meet its obligations in accordance with standards of prudence generally accepted for the firm's business
- will notify the Authority immediately of any significant change in its relationship with the firm.

The guidance specifically notes that the Regulatory Authority expects the letter to contain acknowledgement of its purpose, a clear statement of the relationship between the firm and the controller, and the type and level of control to which the letter relates, and the nature and extent of the commitments to support the firm.

A letter of comfort given by a person ceases to have effect if the person's level of control subsequently decreases to 49% or less, and if on application by the person, the Regulatory Authority is satisfied (after considering the person's financial capability, capital adequacy and risk profile and any evidence offered by the person) that the letter should cease to have effect.

The Regulatory Authority will notify the person in writing of its decision. If the Authority is satisfied that the letter of comfort should cease to have effect, the notice must state the date when the letter so ceases.

A letter of comfort from a person that is not an individual must also state that it is made under a resolution of the governing body of the person. The person must give a copy of the resolution to the Regulatory Authority if required. A firm that is the beneficiary of a letter of comfort must immediately notify the authority of any cancellation or variation of the letter.

If the Regulatory Authority receives a controller they may:

- approve the proposal without conditions
- approve the proposal subject to such conditions as the Authority considers appropriate
- refuse to approve the proposal, or
- object to the proposal and then decide whether to approve, or refuse to approve it.

However, the Authority may take any other action against a person who has failed to comply with these rules or any other rules or law applying in the QFC. In the event the Regulatory Authority objects to a proposal for a person to first become a controller or to increase or decrease control, the authority must, as soon as practicable after it receives the controller notice, letter of comfort or any additional information it requires, give the authorised firm and the person written notice:

- stating the reasons for its objection, and
- giving the firm and person an opportunity to make representations within 14 days after receipt of the notice, or a longer period fixed by the Authority.

The Authority must, as soon as practicable after the expiry of the period for making representations, consider any representations and:

- withdraw its objection and approve (with or without conditions) the proposal, or
- refuse to approve the proposal.

A proposal for a person to first become a controller, or to increase or decrease control, that has been approved (with or without condition) must be acted on by the person by the date specified by the Regulatory Authority in its approval. If no date is specified, then within six months after the date of the approval. The approval lapses if the person does not become a controller, or does not increase or decrease control by that date or period, unless the Regulatory Authority gives an extension in writing.

3.4.3 Change in Control – Branches

This part of the rule applies only to authorised firms that are branches. An authorised firm must give a controller notice in the approved form to the Regulatory Authority if the firm knows that:

- a person is proposing to first become a controller of the firm
- a controller is proposing to increase control over the firm
- a controller is proposing to decrease its level of control over the firm from more than 50% to 50% or less, or
- a controller is proposing to cease control.

The notice must be given immediately after the firm becomes aware of the change in control. If the firm has reasonable grounds to suspect that any of the changes in control exist, the firm must make appropriate inquiries to satisfy itself about the matter and decide whether it should give a controller notice.

3.4.4 Giving Notice about Controllers

This part of the rule applies to all authorised firms.

An authorised firm must give notice to the Regulatory Authority if any of the following matters happen in relation to a controller:

- the controller is the subject of a legal proceeding or an investigation that calls, or might call, the controller's integrity into question
- there is a significant deterioration in the controller's financial position
- there is any significant change in the conduct, or circumstances of the controller, that might reasonably be considered to diminish the fitness and propriety of the firm, or its ability to conduct its business soundly and prudently
- if the controller is not an individual – the controller undergoes a substantial change or series of changes in its governing body.

The notice must be given in the approved form immediately after the firm becomes aware of the matter. If the firm has reasonable grounds to suspect that any of the matters may happen, or have happened, the firm must make appropriate inquiries to satisfy itself about the matter and decide whether it should give notice.

The guidance states that the test of reasonable grounds for suspicion applies to the firm's obligation to make inquiries for itself (and, thereafter, decide whether or not to give notice). The grounds for making inquiries based on the suspicion must be that a reasonable person would, in the circumstances, be expected to make those inquiries.

If there is a legal or regulatory restriction on a firm's complying with the above, the firm must immediately notify the Regulatory Authority of the specific nature of the restriction. On being notified, the authority will direct the firm as to what action the firm must take to comply with this rule.

4. Individuals (Assessment, Training and Competency) Rulebook (INDI)

FSR Article 41 provides the context in which controlled functions are approved, how it is intended they should operate, and the rule-making process the Regulatory Authority will follow in carrying out supervision. The Regulatory Authority rulebook is the Individuals Rulebook (INDI).

4.1 Principles of Conduct

Learning Objective

6.4.1 Know the principles of conduct for approved Individuals

Rule 2.1.1 – Application of the principles; Rule 2.1.2 – Integrity; *Rule 2.1.3 – Due skill, care and diligence; Rule 2.1.4 – Market Conduct; Rule 2.1.5 – Relations with the Regulatory Authority; Rule 2.1.6 – Appropriate Priority for Management and Compliance*

There are five principles, listed below, which apply to any individual who performs a controlled function or **customer-facing function** for an authorised firm:

Principle 1 – Integrity – an individual must act with integrity at all times in exercising a controlled function.
Principle 2 – Due skill, care and diligence – an individual must act with due skill, care and diligence in exercising a controlled function.
Principle 3 – Market conduct – an individual must observe appropriate standards of market conduct in exercising a controlled function.
Principle 4 – Relations with the Regulatory Authority – an individual must deal with the Regulatory Authority in an open and co-operative manner, and must disclose appropriately to the authority any information of which the authority would reasonably expect notice.
Principle 5 – Appropriate priority for management and compliance – an individual who is a member of an authorised firm's senior management must give appropriate priority to their management responsibilities, and must ensure that the business for which they are responsible is effectively supervised and controlled: and complies with the requirements of the regulatory system.

4.2 Training and Competence Programmes

Learning Objective

6.4.2 Know the requirements of the rules relating to training and competence programmes

Rule 5.2.1 – Appropriate programme to be delivered; Rule 5.2.2 – Training must be maintained and reviewed; Rule 5.2.3 – Training and competency document; Rule 3.1.1 – Controlled functions – firms' competence and fitness assessments; Rule 3.1.2 – How firms are to make competence assessments; Rule 3.1.3 – Competencies; Rule 3.1.4 – Qualifications that are appropriate or equivalent

Chapter 5 of the Individuals Rulebook (INDI) covers the aspect of fitness and propriety in terms of the qualification of individuals performing controlled functions, the criteria by which they must be assessed by an authorised firm and then the Regulatory Authority in considering an application by a firm for a particular individual.

4.2.1 Training and Competency Programme

An authorised firm must design, deliver and maintain an appropriate ongoing training and competency programme for individuals performing controlled functions or customer-facing functions for the firm. Such a programme must be relevant, timely and appropriately structured and must ensure that approved individuals are aware, and have an appropriate understanding, of:

1. their roles, responsibilities and obligations
2. the firm's processes in so far as they apply to each approved individual's role
3. any reports that they are required to make, and
4. the sources of information for making the reports.

The training and competency programme must include policies, procedures, systems and controls on how the firm is to decide whether individuals are competent to perform controlled or customer-facing functions. In its design, the firm must consider:

a. the differing needs, experience, skills and abilities of approved individuals
b. the differing roles and levels in the firm of approved individuals
c. the degree of supervision over, or independence exercised by, the approved individuals
d. the availability of information needed for the approved individuals to perform their roles
e. the nature, scale and complexity of the firm's business, including the products and services offered or provided, and proposed to be offered or provided, by it, and changes to those products and services and to the market
f. the clients of the firm
g. the outcome of reviews of the training and competency
h. any analysis showing areas where training needs to be enhanced, and
i. the regulatory system, including any recent, or reasonably expected, changes to it.

In designing the programme, the firm may also consider any other relevant matter.

The firm's training and competency programme must include ongoing training to ensure individuals performing a controlled function, or are customer-facing, maintain their competencies, are kept up to date with developments relating to their functions, and are trained on any changes in the firm's policies, procedures, systems and controls. At regular and appropriate intervals, the firm must review and evaluate its training and competency programme and documentation for quality and effectiveness as well as the training needs of these individuals to ensure their needs are met.

A training and competency document needs to be in place describing the training and competency programme including:

1. the requirements and characteristics of controlled functions for which an individual needs to be approved, any other controlled functions and the customer-facing functions
2. how the firm is to satisfy itself that each individual who performs a controlled function, or the customer-facing function has, and continues to have, the competencies required to perform the function
3. the continuing professional development (CPD) to be provided for such individuals and the review and evaluation of their training needs
4. how the firm is to ensure that it complies, and can demonstrate its compliance, with its training and competency programme

5. how, and in what circumstances, the firm will review the programme and the document, including who is to carry out the review and evaluation and when, and
6. how, and in what circumstances, the firm will revise the programme and the document, including who is to approve any revision.

Revision includes amendments and replacement as appropriate.

4.2.2 Assessing Training and Competency

When assessing whether an individual has the competencies to perform a controlled function they need to take into account the specific:

a. **requirements** – eg, knowledge, level of training
b. **characteristics** – eg, technical and behavioural skills, and
c. **role of the function within the firm** – what the individual is expected to do.

In addition, the firm needs to take into consideration the nature, scale and complexity of their business including:

a. the products and services that it offers or provides, or proposes to offer or provide, and
b. changes to those products and services and to the market
c. the firm's clients, and
d. the regulatory system, including any recent, or reasonably expected, changes to it.

It is the responsibility of the firm's governing body to assess an individual's competence to perform the internal audit function. The assessment of an individual's competence to perform the risk management function, the compliance oversight function or the actuarial function must be made:

a. by the firm's governing body, or
b. after consultation with the firm's governing body.

In making its decision, the firm may also take any other relevant matter into account.

The competencies for a controlled function are the elements of skills, knowledge and experience that make an individual competent to perform the function. An individual who is to perform a controlled function is expected to have the competencies defined for that specific function, have the appropriate regulatory and technical qualification.

Before making an application to the Regulatory Authority for an individual to be approved to perform one or more controlled function, an authorised firm must be satisfied, on reasonable grounds after making appropriate inquiries, that the individual has the competencies required to perform each function. The individual must also be a fit and proper person to perform each function, and satisfy any additional requirements under these or any other rules for each function.

In deciding whether it is satisfied that an individual has the competencies required to perform a controlled function, an authorised firm must have regard to:

a. the controlled function
b. the nature, scale and complexity of the firm's business, including:
   - the products and services offered or provided, and proposed to be offered or provided, by it
   - changes to those products and services, and to the market
c. the clients of the firm
d. the regulatory system, including any recent, or reasonably expected, changes to it, and
e. the qualifications that may be required for the function.

The guidance provides that there are three kinds of competency elements against which an individual is to be assessed as competent or not:

- the individual's skills (what he or she ought to be able to do)
- the individual's knowledge (what he or she ought to know, or to have by way of qualifications)
- the individual's experience (what he or she has previously done, if anything).

The competency elements are to be used in making assessments under this rule and the rules stipulating eligibility to remain approved.

The firm must decide whether the individual has the competencies required to perform the function, taking into account the circumstances of the case and the individual's role. Levels of experience can, for example, be set to two years in a similar role for a junior role, two to ten years for a mid-level role, and more than ten years for a senior role.

In the event specific qualifications are prescribed as a knowledge competency, but firms are permitted to assess other qualifications as being appropriate for an individual's role, the firm must hold appropriate evidence about the appropriateness of the other qualification. Where it is stipulated that the firm may assess another qualification as being equivalent, or that the qualification is unnecessary, the firm must hold appropriate evidence, or must otherwise demonstrate this is the case. The term 'qualification' includes the membership of a professional body or association.

When considering whether a qualification is equivalent to a prescribed qualification, an authorised firm may take into account qualifications that are recognised as appropriate for the relevant role by another regulator.

The firm must record its assessment, and any supporting evidence, in the record about the individual required by the record-keeping rules.

Similar rules exist for the customer-facing functions which are out of the scope of this workbook.

4.3 Fitness, Competence and Suitability of an Individual

Learning Objectives

6.4.3 Know a firm's obligation regarding the fitness of an individual in relation to the performance of a controlled function

Rule 3.1.5 – How firms are to make fitness assessments

6.4.4 Know an authorised firm's responsibilities regarding training and other ongoing obligations relating to controlled functions

INDI 5.1.1–5 Principles for training and competency; Rule 5.3.1 – Review competencies; Rule 5.3.2 – Review training and development; Rule 5.3.3 – Continuing professional development

In deciding whether it is satisfied that an individual is a fit and proper person to perform a controlled function, an authorised firm must have regard to the individual's honesty, integrity and reputation, and their financial soundness. When considering the individual's honesty, integrity and reputation, there are a number of issues to consider including, but not restricted to:

- any past, ongoing or pending legal proceedings, whether civil or criminal, relating to or involving the individual
- any investigation undertaken, disciplinary action taken, or sanctions imposed, in relation to or on the individual by a court, tribunal, regulatory or governmental agency, body or authority, exchange, clearing house, self-regulatory body or other professional body. In this respect, the firm needs to take into consideration whether the individual is able to pay debts as they fall due, arrangements made by the individual with creditors, and whether the individual has filed for bankruptcy, been served with any bankruptcy petition or been subject to any bankruptcy order and whether they have had assets seized, confiscated or frozen
- any complaint against the individual relating to, or any contravention by, or involving the individual of, any financial services legislation (including any regulations, rules, statements of principle or codes of practice made by an exchange, clearing house, self-regulatory body or other professional body)
- any complaint made about the individual's standard of conduct in relation to activities subject to regulation inside or outside the QFC
- the individual's involvement with any business that:
  - was wound up or put into liquidation, placed in receivership or administration, ceased trading, negotiated a settlement with creditors, or became insolvent while the individual was involved with the business, or within one year after that involvement ended
  - had any approval, authority, licence, registration or other permission to conduct business removed, restricted or suspended
  - has been refused any approval, authority, licence, registration or other permission to conduct business
  - has been expelled by any regulatory or governmental agency, body or authority
  - has been investigated, criticised, disciplined, censured or suspended by any regulator, professional body or tribunal, whether publicly or privately
- whether the individual has been dismissed, or asked to resign and has resigned, from a position of trust or fiduciary appointment
- the effect that the individual's reputation may have on the authorised firm and the QFC
- whether the individual has been candid and truthful in dealing with the Authority.

The responsibilities of an authorised firm in respect of the suitability and competence of an individual performing a controlled function are set out in Chapter 5 of the Individuals Rulebook (INDI) and include the five principles of training and competency:

1. **Senior management responsibility** – senior management must ensure the firm's policies, procedures, systems and controls appropriately and adequately address the training and competency requirements.
2. **Training and competency programme** – the firm must design, deliver and maintain an appropriate ongoing training and competency programme for individuals who perform a controlled function or customer-facing function.
3. **Assessment of competencies** – the firm must undertake initial and ongoing assessment of each individual's competencies to perform a controlled function or customer-facing function.
4. **Training** – the firm must ensure individuals who perform a controlled or customer-facing function receive or undertake sufficient training and CPD.
5. **Record keeping** – the firm must be able to provide evidence of compliance of the training and competency requirements.

5. Captive Insurance Rulebook (CAPI)

Learning Objectives

6.5.1 Know the terms and basic concepts covered by the Captive Insurance Business Rulebook

Rule 1.2.1 – QFC captive insurers and their classes; Rule 1.2.2 – What is captive insurance business?; Rule 1.2.3 – Who is a Class 1 captive insurer?; Rule 1.2.4 – Who is a Class 2 captive insurer?; Rule 1.2.6 – Who is a Class 3 captive insurer?; Rule 1.2.7 – Who is a captive insurance manager?; Rule 1.2.8 – What is captive insurance management?

6.5.2 Understand the prudential requirements for firms authorised to conduct captive insurance business

Rule 2.1.1 – Financial resources – General requirement; Rule 2.2.1 – Firms must have minimum capital requirement; Rule 2.2.2 – What is a firm's base capital requirement?; Rule 2.2.3 – What is a firm's premium risk component?; Rules 2.2.4 – Outstanding claims risk component – Firms conducting general insurance business; Rule 2.2.5 – Outstanding claims risk component – Firms conducting life insurance business

6.5.3 Understand the additional requirements for firms authorised to conduct long-term insurance business

Rule 8.2.1 – Firm not a protected cell company; Rule 8.2.2 – Firm a protected cell company; Rule 8.2.3 – Effect of deeming; Rule 8.4.1 – Assets to be used only for contracts attributed; Rule 8.4.2 – Assets not to be transferred for other purposes; Rule 8.4.3 – Distributions must comply; Rule 8.4.4 – Distributions by firm or cell deemed to constitute single long-term insurance fund; Rule 8.4.5 – Assets not be Lent; Rule 8.4.6 – Prohibited arrangements

5.1 Definitions

The Captive Insurance Business Rulebook provides a number of definitions which in combination provide the scope of the rulebook.

A QFC captive insurer is a firm based in the QFC that is authorised to undertake Class 1, 2, 3, or 4 captive insurance business. They are not allowed to operate as a branch. Class 1, 2, 3, or 4 captive insurers may only carry out reinsurance contracts for the risks insured by the cedent. A cedent is also referred to as the 'reinsured' and is the firm that is transferring part, or all of its risks under an insurance contract to another insurer in order to reduce its exposure.

A Class 1 captive insurer is only allowed to carry out contracts of insurance for risks related to the business or operations of the group to which the insurer belongs.

A Class 2 captive insurer may obtain up to a maximum of 20% of its gross written premiums from third party risks. These third parties have to be closely linked to the business or operation of the group to which the insurer belongs. When applying to become a Class 2 captive insurer, the firm will have to provide details of the third party risks it expects to insure and the links with the group to which the insurer belongs.

Example of Close Links

A construction company that offers health insurance to its employees through a captive insurer may also want to extend that coverage to self-employed contractors working for the company. Although the self-employed contractors are considered unrelated to the construction company, a Class 2 captive insurer for the company may be allowed to provide health insurance cover (up to 20% of its business) because of the self-employed contractors' close association to the construction company that owns the captive insurer.

A Class 3 captive insurer may carry out contracts of insurance that are restricted to risks related to the business of operations of persons who engage in similar, related or common businesses, activities, trade, services or operations. The insurer has to be owned by these persons or by a body corporate of which all such persons are members.

A Class 4 captive insurer is any insurer authorised by the Regulatory Authority as a captive insurer that does not meet the requirements for Class 1, 2, or 3. In taking the decision to authorise a firm as a Class 4 captive insurer, the Regulatory Authority will consider:

- the business rationale for making the entity a captive insurer
- the (non) use of the entity as a risk management tool
- the nature and interests of the shareholders or members of the entity, and whether they are aligned, or have some commonality with the policyholder
- any unique expert knowledge of the shareholders or members of the entity about the risks to be insured
- the appropriateness of the structure for the proposed activities or whether the business is more akin to a commercial insurer.

A captive insurance manager is an authorised firm with an authorisation for captive insurance management. Captive insurance management is the administration of, and exercise of managerial functions for, a QFC captive insurer, and includes the administration of contracts of insurance for the insurer.

5.2 Prudential Requirements

The prudential requirements define the financial resources and capital requirements a QFC captive insurer needs to have in place at all times to ensure there is no significant risk that the firm cannot meet its liabilities when they fall due. In addition to the minimum financial resources, a firm must also have additional financial resources adequate for the size and complexity of its business.

The firm's systems and controls need to enable the firm to monitor its minimum capital and solvency requirements and to show whether it complies with the prudential requirements.

5.2.1 Minimum Capital Requirements

The base capital requirement for a QFC captive insurer depends on the type of firm and is determined as follows:

1. Class 1 captive insurer – QR540,000
2. Class 2 captive insurer – QR1.4 million unless the Regulatory Authority determines a different amount for the firm
3. Class 3 captive insurer – QR900,000
4. Class 4 captive insurer – QR3.6 million unless the Regulatory Authority determines a different amount for the firm.

The minimum capital requirement for a firm that is a QFC captive insurer is the highest of the base capital requirement, the premium risk component, and the outstanding claims risk provision component, which are calculated as follows:

Premium risk component for captive insurers conducting general insurance business or life insurance business	Percentage
First QR18 million of net written premium	20%
PLUS	
Net written premium in excess of QR18 million	15%
Outstanding claims risk component for captive insurers conducting general insurance business	**Percentage**
Net claims reserve on property insurance	5%
PLUS	
Net claims reserve on liability insurance	15%
Outstanding claims risk component – firms conducting life insurance business	**Percentage**
Policyholder liabilities calculated using actuarial methods for life insurance	2.5%

In relation to the technical provision risk component, the following definitions apply:

- **net claims reserve on property insurance** is the amount of the firm's net claims reserve on property insurance under general insurance contracts
- **net claims reserve on liability insurance** is the amount of the firm's net claims reserve on liability insurance under general insurance contracts
- **net claims reserve**, as at a date, is the amount of the firm's provisions for:
    - claims incurred but not yet paid as at the date, including claims incurred but not yet reported, and
    - direct and indirect claims settlement expenses for those claims
- less the amount of reinsurance and other recoveries expected to be received in respect of those claims.

The Regulatory Authority may, by written notice, direct a firm to include a particular contract of insurance or category of contracts of insurance in the firm's net claims reserve on property insurance or net claims reserve on liability insurance.

5.3 Additional Requirements for Long-Term Insurance Business

Long-term insurance businesses have to meet a number of additional requirements, depending on the structure of the company, prior to undertaking long-term insurance contracts.

- Not a protected cell company – firms that are not protected cell companies need to establish and maintain one or more long-term insurance funds or give written notice to the Regulatory Authority that they are to be taken to constitute a single long-term insurance fund. If a firm is to be taken as a single long-term insurance fund, all assets and liabilities of the firm are attributed to the fund.
- Protected cell company – firms that are protected cell companies need to establish and maintain one or more long-term insurance funds for the cell or give written notice to the Regulatory Authority that the cell is to be taken to constitute a single long-term insurance fund. If a cell is to be taken as a single long-term insurance fund, all assets and liabilities of the firm are attributed to the cell.

The distinction between protected and unprotected cells is solely in regard to remoteness. So, for a protected cell, the assets and liabilities are remote. For a non-protected cell, all assets and liabilities are bundled together under the fund.

All long-term insurance contracts of a firm must be attributed to a long-term insurance fund. General insurance contracts must not be attributed to a long-term insurance fund unless the contracts fall in the categories of accidents or sickness.

All assets attributable to a long-term insurance fund have to be applied only for the purposes of the contracts attributed to the long-term insurance fund. Any assets attributable to a long-term insurance fund should not be transferred for other purposes of the firm unless the transfer is:

a. a distribution of a surplus following a surplus determination and the transfer is made within four months after the reference date of the relevant financial condition report
b. a distribution by way of dividend or return of capital and is not in breach of any of the rules outlined below

c. made in exchange for other assets at fair value
d. a reimbursement of expenditure borne on behalf of the long-term insurance fund for expenses attributable to, the long-term insurance fund, or
e. a reattribution of assets attributed to the long-term insurance fund in error.

A firm or a cell that is a single long-term insurance fund may only distribute dividend or return of capital if:

a. the firm has a surplus, and
b. the aggregate amount of dividends and return on capital distributed since the reference date does not exceed:
    1. the amount of the surplus (if the payment is made within four months after that reference date), or
    2. 50% of the surplus (if the payment is made more than four months after that reference date).

Assets attributable to a long-term insurance fund may not be lent or otherwise be made available for any other purposes of the firm (or any party related to the firm).

A firm must not enter into any arrangement (whether or not described as a contract of reinsurance) under which, a long-term insurance fund of the firm reinsures risk with another fund maintained by the same firm.

6. Insurance Mediation Business Rules (IMEB)

Learning Objective

6.6.1 Understand key terms, basic concepts and requirements relating to the IMEB rules

Rule 1.2.1 – Who is an insurance intermediary?; Rule 1.2.2 (Sub 1 and 5) – What is insurance mediation?; Rules 1.2.4 – Who is a captive insurance manager?; Rule 1.2.5 – What is captive insurance management?; Rule 1.2.6 – Captive insurance management is a regulated activity; Rule 1.2.9 – What is client money?; Rule 2.1.1 – Application; Rule 2.1.2 – General requirements; Rule 2.1.3 – Firms must have systems and controls for capital and asset requirements; Rule 2.1.4 – Obligation to tell the Regulatory Authority about breach of prudential requirements; Rule 2.1.5 – References to particular currencies; Rule 2.4.1 – Preparation of prudential returns; Rule 2.4.2 – Time limit for annual prudential returns; Rule 2.4.3 – Time limit for quarterly prudential returns

6.1 Insurance Mediation

Insurance mediation is a regulated activity if it is offered by way of business and encompasses a range of services in relation to contracts of insurance including:

1. giving advice regarding purchase and sale
2. making arrangements for other persons to purchase an insurance contract, and
3. assisting in the administration or performance on behalf of policy holders.

In order to offer insurance mediation services, a firm needs to be authorised as an insurance intermediary.

An activity does not classify as insurance mediation if it is conducted in the course of a professional business, it is a necessary part of other services provided, and is not remunerated separately. In addition, the following activities are specifically excluded from insurance mediation:

- loss adjusting
- expert appraisal of insurance claims
- advice given in newspapers, journals, magazines or similar publications, where the main purpose is not to influence people's decision-making process. This includes advertisements and other promotional material
- providing a means by which a party to the transaction can communicate with other parties to the transaction, and
- captive insurance management.

6.2 Captive Insurance Management

A captive insurance manager is an authorised firm (or firm) incorporated in the QFC with an authorisation for captive insurance management.

Captive insurance management is a regulated activity encompassing the administration of, and exercise of, managerial functions for, a QFC captive insurer, and includes the administration of contracts of insurance for the insurer.

6.3 Client Money

'Client money' of a firm is money received from, or held on behalf of, clients in relation to conducting insurance mediation in, or from, the QFC, or funds the firm treats as client money. In relation to insurance mediation this could, for example, include premiums, claims, refunds and salvage, fees, charges and taxes, or discounts, commissions and brokerage.

6.4 General Prudential Requirements

Similar to captive insurance managers, firms authorised to undertake insurance mediation must abide by the prudential requirements established by the QFC. The prudential requirements define the financial resources and capital requirements a captive insurer needs to have in place at all times to ensure there is no significant risk the firm cannot meet its liabilities when they fall due. In addition to the minimum financial resources, a firm must also have additional financial resources adequate for the size and complexity of its business.

The firm's systems and controls need to enable the firm to monitor its minimum capital and solvency requirements and to show whether it complies with the prudential requirements. Firms authorised to undertake insurance mediation and/or captive insurance management need to meet the prudential requirements defined by the QFC.

In addition, the firm must have the systems and controls in place and, at all times, be able to monitor the amount of its paid-up share capital and its net asset value.

In the event the firm is not, or will not be, able to meet the capital requirements it must immediately inform the Regulatory Authority. In the first instance, the firm must orally inform the Regulatory Authority within one business day, after which a written notice must be given, by no later than the next business day. The written notice must confirm the oral notification, explaining the nature of the breach and why the firm considers it may be in breach, and setting out the actions the firm proposes to remedy the situation. During the period of the breach, the firm may not make any distribution to its shareholders or members, whether by way of dividends or otherwise, without the authority's written permission.

Any specific mention of amounts of money in the rules is also taken to specify the equivalent sum in another currency at the relevant time.

6.5 Prudential Returns

Firms need to prepare quarterly and annual prudential returns required by the Regulatory Authority. In addition, the Regulatory Authority may require the firm to provide additional returns, or exempt firms, from preparing the annual return for a particular period. Any such notices need to be provided in writing. Exemptions from preparing an annual return may be subject to conditions, restrictions or requirements with which the firm must comply. The annual prudential return must be completed within four months after the final day of the relevant financial year. Quarterly prudential returns need to be provided to the Regulatory Authority within one month after the day on which the firm's quarter ends.

7. Prudential Banking Business Rules (BANK)

7.1 Prudential Reporting Requirements

Learning Objectives

6.7.1 Know the prudential reporting requirements for a banking business firm

Rule 2.1.1(2) – Introduction; Rule 2.1.3. – Financial group and prudential risk; Rule 2.1.4 (1) and (2) – Preparing returns; Rule 2.1.5 – Giving information; Rule 2.1.6 – Accounts and statements to use for international standards; Rule 2.1.8 – Firm to notify Authority

The prudential returns of a banking business firm must reflect the firm's management accounts, financial statements and ancillary reports. All returns, accounts statement and reports must be prepared using the same standards and practices, and it must be possible to reconcile the reports with one another. For a banking business that is part of a financial group, prudential risk (credit, market, operational, and **liquidity risk** and interest rate risk in the Banking Book (IRRBB)) applies on a consolidated basis to the firm and other members in the group. Which means that the reports do not just relate to the financial activities or items of the firm, but to those of all other members of the group as well.

The Regulatory Authority will publish a notice on an approved website detailing the prudential returns a firm is required to prepare. Such a notice may also include additional information to be provided. The return must be submitted to the Regulatory Authority within the period stated in the notice.

The Regulatory Authority may request (by written notice) additional information which the firm must provide in accordance with the instructions and period stated within the notice. The period of time may be extended by the authority. A firm may be exempt if it complies with any stated condition attached to an exemption.

Financial accounts and statements need to be prepared in accordance with International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (GAAP), or any other accounting standard approved in writing by the Regulatory Authority. If the firm decided to use a standard other than the one it has previously used, the firm must notify the authority in writing prior to doing so.

In the event a firm is aware, or has reasonable grounds to believe, it has breached, or is about to breach, a prudential requirement the firm must notify the Regulatory Authority. In the following cases, the firm must notify the Authority as soon as practicable:

1. any (foreseen) breach of its minimum capital requirement
2. any concern (including because of projected losses) of its capital requirement
3. any indication of a significant adverse change in market pricing of, or trading in, the capital instruments of the firm or its financial group (including pressure on the firm to purchase its own equity or debt)
4. any other significant adverse change in its capital, and
5. any significant departure from its ICAAP.

The firm must notify the regulator of any measures taken or planned to deal with any breach, prospective breach or concern.

7.2 Capital Adequacy Requirements

Learning Objectives

6.7.2 Know a banking business firm's capital adequacy requirements

Rule 3.1.1 (2) and (3) – Introduction; Rule 3.1.2. – Chapter 3 and its application to branches; Rule 3.1.4 – Systems and controls; Rule 3.1.5(1) and (2) – Internal capital adequacy assessment; Rule 3.1.6(1), (2) and (5) Use of internal models

A banking firm is required to hold capital to support their operation by providing a buffer to absorb losses from its activities. In addition, it enables the firm to continue to operate in a sound and viable manner while any problems are resolved. Capital management must, therefore, be an integral part of a banking business firms' credit risk management process and align the firm's risk tolerance and risk profile with its capacity to absorb losses. The total regulatory capital of a banking business firm is equal to the sum of its tier 1 and tier 2 capital.

The capital requirements outlined here do not apply to branches. Instead, branches are required to comply with the reporting requirements outlined in this section. The branch may rely on the ICAAP produced by their head office (if available) to demonstrate compliance.

A banking business firm must have adequate systems and controls in place to allow it to calculate and monitor its minimum capital requirement. These systems and controls must:

1. be in writing
2. be appropriate for the nature, scale and complexity of the business and its risk profile
3. enable the firm to show at all times whether it complies with the capital adequacy requirements
4. enable the firm to manage available capital in anticipation of events or changes in market conditions
5. include **internal capital adequacy process (ICAAP)**, and
6. have contingency arrangements to maintain or increase capital in times of stress.

The firm's ICAAP is the process by which the firm continuously demonstrates that it has implemented methods and procedures to ensure that it has adequate capital resources to support the nature and level of its risks. ICAAP, and any significant changes to it, must be in writing and approved by the firm's governing body. A copy needs to be made available to the Regulatory Authority on request.

The Regulatory Authority's requirements for banking business firms to maintain adequate capital and manage prudential risk are based on the approaches set out by the Basel Committee on Banking Supervision (BCBS) in the Basel Accords. The accords allow firms to use internal models to assess capital adequacy and prudential risk. Any own models to assess capital adequacy or prudential risk must be approved by the Regulatory Authority prior to their use by the firm. The authority may approve a model subject to one or more conditions. Once a model has been approved, the firm must not stop using it, or make significant changes to it, without the authority's approval.

7.3 Credit Risk Management

Learning Objectives

6.7.3 Know the requirements for a banking business firm's credit risk management policy including mitigation

Rule 4.1.2 – Credit Risk; Rule 4.1.3 – Requirements – Management of credit risk and problem assets; Rule 4.2.1 – Credit risk management policy; Rule 4.2.2 – Policies – General Credit Risk Environment; Rule 4.2.3 – Policies – Credit decisions; Rule 4.2.4. – Policies – Monitoring, testing, and access; Rule 4.5.2 – Choice of CRM techniques; Rule 4.5.3 – Requirements – CRM techniques

'Credit risk' is defined as the risk of default by counterparties and the risk that an asset will lose value because its credit quality is deteriorated. It may result from on- and off-balance sheet exposures and exists in both the trading and the banking book.

Problem assets include impaired credits and other assets if there is reason to believe that the amounts due may not be collectable in full or in accordance with their terms.

A banking business firm must manage credit risk by adopting a prudent credit risk management policy that allows its credit risk to be identified, measured, evaluated, managed and controlled or mitigated. The policy must also provide for problem assets to be recognised, measured and reported. The policy must set out the factors that must be taken into account in identifying problem assets.

In order to enable the firm to identify, measure, evaluate, manage and control or mitigate credit risk, a banking business firm must establish and implement a credit risk management policy that is appropriate for the nature, scale and complexity of its business and for its risk profile. The objective of the policy is to give the firm the capacity to absorb any existing and estimated future losses arising from credit risk.

The policy must address the following components:

1. general credit risk environment
2. credit decisions, and
3. monitoring, testing and access.

General Credit Risk Environment

A banking business firm's credit risk management policy must establish:

a. a well-documented and effectively-implemented process for assuming credit risk that does not rely unduly on external credit ratings
b. a well-defined criteria for approving credit (including prudent underwriting standards), and renewing, refinancing and restructuring existing credit
c. a process for identifying the approving authority for credit, given its size and complexity
d. effective credit risk administration, including regular analysis of counterparties' ability and willingness to repay; and the monitoring of documents, legal covenants, contractual requirements, and collateral and other credit risk mitigation (CRM) techniques
e. effective systems for the accurate and timely identification, measurement, evaluation, management and control, or mitigation of credit risk, and reporting to the firm's governing body and senior management
f. procedures for tracking and reporting exceptions to, and deviations from, credit limits or policies
g. prudent and appropriate credit limits that are consistent with the firm's risk tolerance, risk profile and capital, and
h. effective controls for the quality, reliability and relevance of data and validation procedures.

The detailed content is dependent on the nature, scale and complexity of a banking business firm's credit risk, and how often it provides credit or incurs credit risk. The CRM policy should include:

a. how the firm defines and measures credit risk
b. the firm's business aims in incurring credit risk, including: identification of types and sources of credit risk that will be permitted, the degree of diversification required, and the risk-return trade off the firm seeks to achieve
c. the types of credit to be offered and the ceilings, pricing, profitability and maximum maturity characteristics
d. a ceiling for the total credit portfolio
e. portfolio limits for maximum gross exposure by exposure class (eg, region, country and industry)
f. limits, terms and conditions, approval and review procedures
g. types of collateral, loan-to-value ratios and criteria for accepting guarantees
h. detailed limits for credit risk and a credit-risk structure that takes into account all significant risk factors, including intra-group exposures which is commensurate with the scale and complexity of the firm's activities, and is consistent with the firm's business aims, historical performance, and the amount of capital it is willing to risk

i. procedures for approving new products/activities that give rise to credit risk, regular risk position and performance reporting, and approving and reporting exceptions to limits
j. allocating responsibilities for implementing the credit risk management policy and monitoring adherence to, and the effectiveness of, the policy, and
k. the required information systems, staff and other resources.

Credit Decisions

The credit risk management policy must ensure that credit decisions are free of conflicts of interest and are made on an arm's length basis. In particular, the credit approval and credit review functions must be independent of the credit initiation function.

Arrangements, such as employee loan schemes, are permitted so long as the policy ensures that the scheme's terms, conditions and limits are generally available to employees and adequately address the risks and conflicts that arise from loans under it. The policy needs to clearly set out who has the authority to approve loans to employees. The authority of a credit committee or credit officer should be appropriate for the products or portfolio and should be commensurate with the committee's or officer's credit experience and expertise. Authorities need to be reviewed regularly to ensure they remain appropriate. The firm's remuneration policy should be consistent with its credit risk management policy and should not encourage officers to attempt to generate short-term profits by taking an unacceptably high level of risk.

The policy must state that decisions relating to the following are made at the appropriate level of the firm's senior management or governing body:

a. exposures exceeding a stated amount or percentage of the firm's capital
b. exposures that, in accordance with criteria set out in the policy, are especially risky, and
c. exposures that are outside the firm's core business.

The level at which credit decisions are made should vary depending on the kind and amount of credit and the nature, scale and complexity of the business.

Monitoring, Testing and Access

The firm's credit risk management policy must provide for monitoring the total indebtedness of each counterparty and any risk factors that might result in default (including any significant unhedged foreign exchange risk). In addition, the policy must include stress-testing the firm's credit exposures at intervals appropriate for the nature, scale and complexity of the firm's business and for its risk profile. It must also include a yearly review of stress scenarios, and procedures to make any necessary changes arising from the review. Full access to information in its credit portfolio, and access to staff involved in assuming, managing and reporting on credit risk must be provided to the Regulatory Authority.

7.3.1 Credit Risk Mitigation (CRM)

Credit risk mitigation (CRM) techniques are complementary to thorough credit risk management, and should not be considered as a replacement. A firm is able to obtain capital relief by using CRM techniques.

In choosing a CRM technique, the firm must consider its knowledge and expertise in using the technique, as well as:

a. cost-effectiveness of the technique
b. type and financial strength of the counterparties or issuers
c. correlation of the technique with the underlying credits
d. availability, liquidity and realisability of the technique
e. extent to which documents in common use (eg, the ISDA Master Agreement) can be adopted, and
f. degree of recognition of the technique by financial services regulators.

Types of CRM techniques available to the firm include:

a. accepting collateral, standby letters of credit and guarantees
b. using credit derivatives or other derivative instruments
c. using netting agreements, and
d. purchasing insurance.

Acceptance of collateral and guarantees is usually dealt with at the time credit is granted whereas other techniques are typically applied after the credit is granted. A firm should not excessively rely on collateral or guarantees. Firms providing mortgages at high loan-to-value should consider the need for alternative forms of protection against the risk of a fall in the value of the property.

The credit risk management policy must set out the conditions under which CRM techniques may be used, and enable the firm to manage CRM techniques and the risks associated with their use. The protection given by CRM techniques needs to be analysed to ensure that any residual credit risk is identified, measured, evaluated, managed and controlled or mitigated. For collateral, the policy must state the types of collateral that it will accept, and the basis and procedures for valuing collateral. For netting agreements, a netting policy needs to be in place that sets out its approach. The netting policy must provide for monitoring netting agreements and must enable the firm to monitor and report netted transactions on both gross and net bases.

7.4 Market Risk

Learning Objectives

6.7.4 Know the requirements for a banking business firm's market risk management policy including mitigation:

Rule 6.1.1(2) and (3) – Introduction; Rule 6.1.2 – Requirements – Capital and management or market risk; Rule 6.1.3 – Standard method to be used; Rule 6.1.4 – Need for trading Book; Rule 6.1.6 – Policies – Market risk environment; Rule 6.1.7 – Policies – Trading book; Rule 6.1.8. – No

switching of instruments between books; Rule 6.1.9 – Relation to stress testing; Rule 6.1.10 – Capital requirement, assets and liabilities

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A firm that operates in a market incurs risks from potential movements in market prices. The market risk capital requirement is made up of capital charges for:

a. foreign exchange risk in the banking book and **trading book**
b. options risk in the banking book and trading book
c. commodities risk in the banking book and trading book
d. traded equity position risk, and
e. traded interest rate risk.

The firm must have robust market risk measurement and risk management, and needs to have sufficient capital to cover market risk from positions in its banking and trading books.

Unless the firm has obtained approval from the Regulatory Authority to use an internal model, market risk is generally measured using the standard method. The standard method comprises a range of approaches that a firm may use to calculate capital charges from its trading activities. In the standard method, capital requirement is the sum of the capital charges for the risks included in market risk.

The firm's trading book consists of the positions held by the firm (whether on-balance sheet or off-balance sheet) that must be included in the trading book. Other positions held by the firm must be included in its banking book. The firm must have a trading book if it has positions that must be included in the trading book, and the total value of these positions has exceeded 5% of the total of the firm's on-balance-sheet and off-balance-sheet positions at any time in the previous 12 months. The trading book includes positions and exposures of the following kinds:

a. a position in a financial instrument, commodity or commodity derivative
b. a principal broking position in a financial instrument, commodity or commodity derivative
c. a position taken to hedge an exposure in the trading book
d. an exposure from a repurchase agreement, or securities or commodities lending, that is based on a position in a security or commodity included in the trading book
e. an exposure from a reverse repurchase agreement, or securities and commodities borrowing, that is based on a position in a security or commodity included in the trading book
f. an exposure from an unsettled transaction, a free delivery or an over-the-counter (OTC) **derivative**
g. an exposure in the form of a fee, commission, interest, dividend or margin on an exchange-traded derivative (ETD) directly related to a position included in the trading book.

In addition, the firm must also include total rate of return swaps (except those that have been transacted to hedge a banking book credit exposure); and open short positions in credit derivatives in its trading book. The firm must not include positions held for liquidity management; and loans (unless they are used to hedge a position or transaction in the trading book). All positions and exposures must be valued in accordance with the relevant accounting standards.

A firm's market risk management policy must establish:

a. effective systems for the accurate and timely identification, measurement, evaluation, management and control or mitigation of market risk, and reporting to the firm's governing body and senior management
b. prudent and appropriate market risk limits that are consistent with the firm's risk tolerance, risk profile and capital, and with the management's ability to manage
c. who is responsible for identifying, measuring and reporting market risk
d. procedures for tracking and reporting exceptions to, and deviations from, limits or policies, and
e. procedures for including positions and exposures in the trading book.

The policy must ensure that all of the firm's transactions are identified and recorded in a timely way and that their valuations are consistent and prudent. The firm must use reliable market data that have been verified by a function that is independent of the function that assumed or incurred the risk.

In addition, specific, clearly defined policies need to be in place for keeping the trading book up-to-date and the positions and exposures accurate. The trading book policy must specifically address:

a. what to include, or not to include, in the trading book
b. managing and reporting trading positions
c. valuing positions, including clearly defined responsibilities of staff involved in the valuation: sources of market information, and review of their reliability: frequency of independent valuations: timing of closing prices: procedures for adjusting valuations between periods: ad hoc verification procedures: and reporting lines for the valuation function that are independent of that function that gave rise to the position.

The policies must be approved by the firm's governing body, and the firm must be able to demonstrate compliance with them if directed by the Regulatory Authority. In addition, the firm must have adequate policies to monitor compliance with the policies and distinguish consistently between trading activities and banking activities, and to monitor the size of its trading book.

The firm must not switch an instrument between its trading book and banking book, unless the Regulatory Authority has, in writing, allowed the firm to do so. The authority may approve a switch subject to one or more conditions. The firm must not benefit from any lower regulatory capital requirement resulting from a switch approved by the authority.

When carrying out stress-testing or review of stress scenarios, a banking business firm must take into account market risk exposures.

In calculating its capital requirement, a banking business firm must take into account unexpected losses that may arise from market risk. In determining the value of an asset or liability, the firm must also make appropriate adjustments for uncertainties arising from market risk.

7.5 Interest Rate Risk

Learning Objectives

6.7.5 Know the requirements for a banking business firm's policy regarding interest rate risk on the banking book

Rules 8.1.2 and 8.1.3 – Interest rate risk in the Banking Book; Rule 8.1.5 – Policies: Management of Interest rate risk in the Banking Book; Rule 8.1.6 – Assumptions and adjustments; Rule 8.1.7 – Floating rate exposures; Rule 8.1.8 – New products and activities; Rule 8.1.9 (1) and (2) – Stress-testing and interest rate risk in the Banking Book; Rule 8.1.10 – Duty to notify the Authority of decline in value; Rule 8.1.11 – Relation to internal capital adequacy assessment

Interest rate risk in the Banking Book (IRRBB) is a major source of risk for firms conducting banking activities, particularly if the firm's banking book assets is in excess of 15% of its total assets. IRRBB is the risk to earnings or capital arising from a movement in interest rates and occurs in three main forms:

1. **basis risk** – change in rate relationships among yield curves that affect bank activities
2. **yield curve risk** – change in relationships across the spectrum of maturities, and
3. **option risk** – interest related options embedded in bank products.

Examples of IRRBB include, but are not restricted to, the following:

- risks from underwriting on a firm-commitment basis
- risks related to the mismatch of the re-pricing of assets and liabilities, and off-balance sheet short-term and long-term positions
- risks arising from hedging exposure to an interest rate with exposure to another rate that re-prices under different conditions
- risks related to uncertainties in the occurrence, timing, pricing or value of transactions
- risks that counterparties will redeem fixed-rate products when market rates change.

A banking business firm must hold sufficient capital to effectively control or mitigate its IRRBB. The QFCRA may impose a capital requirement based on the firm's ICAAP if they are of the view that the firm's capital requirement is insufficient to cover its exposure to IRRBB.

It is the responsibility of the firm's governing body to ensure the IRRBB management policy enables them to have a comprehensive, firm-wide view of IRRBB taking into consideration the nature, scale, and complexity of their banking book activities. The governing body is responsible for monitoring the nature and level of IRRBB, the firm's overall IRRBB profile: and any changes in market conditions that may affect the firm's current or potential future risk profile. In addition, the need to ensure senior management establishes and implements an IRRBB management policy that adequately identifies, measures, monitors, and controls or mitigates this risk. They may delegate the role (but not the responsibility) to a committee of the governing body.

The QFCRA expects a firm to set qualitative and quantitative targets for IRRBB, including all sources of risk, and to evaluate the effect of rate changes on earning or economic value in a meaningful and accurate way. A management policy needs to be in place to establish:

a. effective systems for the accurate and timely identification, measurement, evaluation, management and control or mitigation of IRRBB, and reporting to the firm's governing body and senior management
b. regular review, and independent internal or external validation, of any model used by the firm to manage IRRBB (including review of significant assumptions). Independent internal validations need to be undertaken by a function that is independent from the function that assumed or incurred the risk
c. prudent and appropriate limits that are consistent with the firm's risk tolerance, risk profile and capital, and
d. procedures for tracking and reporting exceptions to, and deviations from, limits or policies.

The risk measurements need to be clearly defined and consistent with the nature and complexity of the firm's business. The outputs of the risk measurements need to be reported to senior management and the governing body of the firm. Any major hedging or risk-management initiatives need to be approved by the governing body or their appropriate committee. Effective risk management should flag excessive exposures, evaluate all significant interest rate risk, ensure an integrated view of IRRBB across products and businesses lines, and ensure accurate and timely reporting on all aspects of current positions.

The firm must not apply assumptions or adjustments to their IRRBB exposure unless they have been approved by the governing body or their relevant committee. The QFCRA may require a firm to obtain QFCRA approval prior to applying an assumption or adjustment. Irrespective of whether they have obtained approval from the QFCRA, a firm has to demonstrate how they applied an assumption or adjustment if requested to do so by the QFCRA.

Firms must set prudent limits on the extent to which floating-rate exposures are funded by fixed-rate sources (and vice versa). In floating-rate lending, the firm must have prudent limits in place related to basis risk.

The effect of IRRBB must be assessed prior to the introduction of a new product or activity. As part of the introduction of a new product or activity, the firm must assess the effect of IRRBB and consider managing the effect through hedging using swaps or other derivatives.

Stress-testing of exposures to IRRBB need to be undertaken at an appropriate interval, considering the nature, scale, complexity, and risk profile of the firm. Firms with balance sheet exposures in two or more currencies need to measure their risk exposure in each currency of which 5% or more of its banking book assets or liabilities is denominated. The stress-testing must determine the:

a. re-pricing gap between the firm's assets and liabilities, before and after the effect of derivative instruments is taken into consideration, and
b. sensitivity of the firm's net interest income to a 200 basis point change in interest rates in relation to the firm's forecast banking book balance sheet.

The firm must immediately notify the QFCRA in the event the stress-testing suggests that as a result of a change in interest rate by 200 basis points, the economic value of the firm would decline by more than 20%.

The firm must be able demonstrate to the QFCRA that their ICAAP adequately captures IRRBB. For this purpose, the approach to evaluation and management of IRRBB within ICAAP should include the following:

a. the internal definition of, and the boundary between, banking book and trading book
b. a definition of economic value showing that it is consistent with the method used to value assets and liabilities
c. the size and form of the different interest rate changes to be used for stress-testing
d. whether a dynamic or static approach to decide the effect of interest rate changes is used
e. how to treat pipeline transactions (including any related hedging)
f. how to aggregate multi-currency interest rate exposures
g. whether or not non-interest-bearing assets and liabilities, capital and reserves are included in the evaluation
h. how to treat current and savings accounts (that is, the maturity attached to exposures without a contractual maturity)
i. how to treat fixed-rate assets or liabilities, if customers have a right to repay or withdraw early
j. the extent to which sensitivities to small changes can be scaled up linearly without significant loss of accuracy (covering both convexity generally and the nonlinearity of pay-off associated with explicit option products)
k. the degree of granularity employed (for example, offsets within a time band or zone), and
l. whether all future cash flows or only principal balances are included.

7.6 Liquidity Risk

Learning Objectives

6.7.6 Know the requirements for a banking business firm to establish liquidity risk policies and maintain an adequate level of liquidity

Rule 9.1.1 (2) – Introduction; Rule 9.1.2 – Categorisation of firms in terms of liquidity management; Rule 9.1.3 – Designation of firms as liquidity risk group A banking business firms

Rule 9.1.5 – Principle 1 – Sound management of liquidity risk; Rule 9.1.6 – Principle 2 – maintaining sufficient liquidity to meet obligations as they fall due; Rule 9.1.7 – Principle 3 – Stable sources of funding; Rule 9.1.8 – Principle 4 – Informing the regulatory authority of liquidity concerns; Rule 9.1.9 – Responsibilities of governing body and senior management; Rule 9.1.10 – Relation to internal capital adequacy assessment

Liquidity risk is defined as the *'risk that a firm may not be able to meet its financial obligations as they fall due'*. More than any other prudential risk, liquidity risk is related to group risk in that a banking business firm that is a member of a group could be called on to make good on commitments and guarantees in favour of the other members of its group.

Banking business firms must have a risk management framework to measure, monitor and manage liquidity risk, which is appropriate for the nature, scale and complexity of the firm's operations. The firm must maintain a portfolio of high-quality liquid assets sufficient in size to enable the firm to withstand a severe liquidity stress. In addition, the firm must maintain a robust funding structure appropriate for the nature, scale and complexity of their operations. Maturity mismatches between assets and liabilities must be limited, and the firm must inform the regulatory authority promptly about any liquidity concerns.

Banking business firms are categorised in two liquidity categories:

- Group A has been so designated by the Regulatory Authority.
- Group B is any other banking business firm.

There are four principles associated with liquidity risk:

- **Principle 1** – sound management of liquidity risk
  - A banking business firm is responsible for the sound management of its liquidity risk and must have a robust framework to manage that risk.
- **Principle 2** – Maintaining sufficient liquidity to meet obligations as they fall due
  - A banking business firm must, at all times, maintain sufficient liquidity to meet its obligations as they fall due, and must hold a minimum level of high quality liquid assets to survive a severe liquidity stress.
- **Principle 3** – Stable sources of funding
  - A banking business firm must ensure that its activities are funded with stable sources of funding on an ongoing basis.
- **Principle 4** – Informing the regulatory authority of liquidity concerns**.**
  - A banking business firm must inform the Regulatory Authority as soon as possible of any concerns that the firm has about its current or future liquidity, and its plans to address these concerns. In particular, if a banking business firm experiences severe liquidity stress, it must notify the Authority immediately, and must describe the action that is being taken to address the situation.

Ultimate responsibility for the sound and prudent management of the firm's liquidity risk lies with the banking business firm's governing body. A liquidity risk management framework appropriate for the level and extent of liquidity risk to which the firm is exposed needs to be maintained. The governing body must ensure that the firm's senior management and other relevant personnel have the necessary experience to manage liquidity risk, and the firm's liquidity risk management framework and liquidity risk management practices are documented, and are reviewed at least annually. In addition, the governing body must review regular reports on the firm's liquidity and, as necessary, information on new or emerging liquidity risks.

A banking business firm's senior management is responsible for all of the following:

- develop a liquidity management strategy, policies and processes in accordance with the **liquidity risk tolerance** approved by the firm's governing body
- ensure that the firm maintains sufficient liquidity at all times
- determine the structure, responsibilities and controls for managing liquidity risk, and for overseeing the liquidity positions, of the firm and all of its branches and subsidiaries in all of the jurisdictions in which the firm and its branches and subsidiaries are active, and set out that structure and those responsibilities and controls clearly in the firm's liquidity policies
- ensure that the firm has adequate internal controls to ensure the integrity of its liquidity risk management processes
- ensure that stress tests, contingency funding plans and holdings of high quality liquid assets are effective and appropriate for the firm
- establish reporting criteria specifying the scope, manner and frequency of reporting for various recipients (such as the firm's governing body and senior management and any relevant committee of the governing body) and fix who is responsible for preparing the reports

- establish the specific procedures and approvals necessary for making exceptions to policies and limits, including the escalation procedures and follow-up actions to be taken for breaches of limits
- closely monitor current trends and potential market developments that may present challenges for managing liquidity risk, so that appropriate and timely changes to the liquidity management strategy can be made as needed
- continuously review information on the firm's liquidity developments and report to the governing body regularly.

The firm's governing body and senior management must be able to demonstrate a thorough understanding of:

- the links between funding liquidity risk (the risk that the firm may not be able to meet its financial obligations as they fall due) and market liquidity risk (the risk that liquidity in financial markets, such as the market for debt securities, may decline significantly), and
- how risks of other kinds, such as credit risk, market risk, operational risk and reputational risk, affect the firm's liquidity risk management strategy.

7.6.1 Relation to ICAAP

Banking businesses must be able to demonstrate to the Regulatory Authority that its ICAAP adequately captures liquidity risk, even if the effect of liquidity risk on the firm's capital is indirect (for example, by reducing the value of the firm's assets at the time they are realised).

7.7 Liquidity Risk in Islamic Banking

Learning Objectives

6.7.7 Know the additional on liquidity risk from Islamic financial contracts

Rule 8.2.2 – Murabaha; Rule 8.2.3 – Commodity murabaha; Rule 8.2.4 – Salam; Rule 8.2.5 – Ljarah; Rule 8.2.6 – Mudarabah and musharaka; Rule 8.2.7 – PSIAs; Rule 8.2.8 – Qard

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This rule, which is incorporated in the IBANK rulebook, provides guidance on liquidity risks that may arise from various Islamic finance contracts. An Islamic banking business firm should look into risk transformation in these contracts during their various stages since these transformations may (in) directly affect the liquidity of the contract.

Contract	Issues affecting liquidity risk
Murabaha	Late or non-payment by the customer
Commodity murabaha	Raising funds in this way requires the firm to pay back the principal and agreed share of profit to the customer on maturity, the firm may be exposed to liquidity risk. If commodity-murabahah-based funds (which are usually short-term in nature) are used by the firm to finance longer-term assets, a maturity mismatch will result. Such a mismatch may become acute if the firm has a high reliance on such deposits to fund its assets.
Salam	Illiquidity of commodity markets and the non-permissibility of exiting the contract before delivery.
Ijarah	a. late payment or non-payment of instalments by the customer: b. the inability to sell or lease the asset to a new customer at the end of an earlier contract, or c. default by the customer.
Mudaraba and musharaka	a. late payment or non-payment of profit payments during the contract, or b. non-payment by the customer of the remaining principal at the end of the contract
PSIA	Panic withdrawals of funds by investment account holders (IAHs). Such withdrawals may result from rate of return risk, Shariah non-compliance risk or reputational risk.
Qard	The firm should pay back the full amount on demand and should, therefore, ensure that sufficient funds are available to do so as and when the demand arises.

8. Investment Management and Advisory Rules (INMA)

Learning Objectives

6.8.1 Understand the minimum capital and liquid assets requirements of a firm

Rule 3.3.3 – Minimum paid-up share capital; Rule 3.3.4 – Net liquid assets requirement; Rule 3.3.5 (1) and (2) – Calculating total liquid assets; Rule 3.3.6 – Calculating annual operating expenditure; Rule 3.3.7 – Revision of annual operating expenditure; Rule 3.3.9 – Reductions in paid-up share capital

6.8.2 Understand the rules relating to the risk management strategy of an INMA firm

Rule 4.2.1 – Risks to be Addressed; Rule 4.2.2 – Risk management policy; Rule 4.2.3 – Staff understanding of risks; Rule 4.3.1. Firms must take out and maintain professional indemnity insurance; Rule 4.3.2. (1), (2) and (3) – Minimum requirements for professional indemnity insurance policies; Rule 4.3.3 (1), (2) and (3) – Suitability of professional indemnity insurers; Rule 4.3.5 – Notices to the Regulatory Authority

8.1 Minimum Capital and Liquid Assets Requirements

The paid up share capital of an INMA firm depends on the activity the firm is authorised to conduct as outlined in the table below. If the firm is (or is to be) authorised to conduct more than one such activity, it must have the higher or highest of the relevant amounts of paid-up share capital.

Activity	Minimum paid-up share capital (QR)
Dealing in investments (if limited to dealing as agent)	1.8 million
Managing investments	1.8 million
Providing custody services	1.8 million
Operating a CIS	1.8 million
Providing custody services in relation to a CIS	35 million
Providing scheme administration	900,000
Arranging deals in investments	900,000
Arranging the provision of custody services	900,000
Arranging financing facilities	900,000
Advising on investments	900,000

Net liquid assets is the amount by which the total value of the firm's liquid assets exceeds the total value of its current liabilities. At all times, a firm must have net liquid assets at least equal in value to 25% of the firm's **annual operating expenditure**. The Regulatory Authority may require a firm to hold a higher amount of net liquid assets if they consider that this is needed due to the nature, scale and complexity of a particular firm.

Liquid assets are defined as:

a. cash on hand, and demand deposits, term deposits accessible on demand, and money otherwise deposited with a bank, and
b. highly liquefiable investments that the Regulatory Authority determines to be appropriate to count as liquid assets (but subject to any direction of the authority about a haircut to be applied).

When calculating the total value of the firm's liquid assets, no amount may be allowed for any of the following:

a. fixed assets
b. any investment, asset or deposit that has been pledged as security or collateral for an obligation or liability
c. receivables
d. cash held in a client bank account
e. deferred tax assets
f. unlisted equity investments
g. any investment by a subsidiary of the firm in the firm's own shares
h. holdings of investments that are categorised as level 3 under the IFRS fair value hierarchy
i. investments in, and loans to, affiliates and related persons.

An INMA firm's annual operating expenditure is the annualised total of the expenses for the year to date that arose in the normal course of the firm's business, as reported to the Regulatory Authority in the firm's most recent form BR200. If the firm has not yet reported in form BR200: or at any time during the current reporting period, was not an INMA firm: the firm must base its annual operating expenditure on the budgeted or forecast accounts that it submitted to the Regulatory Authority as part of its application for authorisation (or any application to vary the scope of its authorisation).

A firm must recalculate its annual operating expenditure if it expects a significant change in its expenditure (either up or down): or changes its authorised activities. If an INMA firm has recalculated its annual operating expenditure, it must submit the recalculation to the Regulatory Authority within seven days of doing so, and must seek approval for it from the authority. The authority may object to the recalculation within 30 days of receiving it and may direct the firm to revise its net liquid assets requirement accordingly. An INMA firm must not reduce its paid-up share capital without the Regulatory Authority's written approval.

8.2 Risk Management Strategy

An INMA firm must identify all the risks to which it is exposed in its risk management strategy. At a minimum, the risk management policy must address operational, reputational, and liquidity risk. If an INMA firm is exposed to any other kinds of risk, due to the nature, scale and complexity of the business, these must also be incorporated. The risk management policy must reflect the nature, scale and complexity of the firm's operations and must include:

a. the kinds of risk the firm is exposed to
b. the firm's strategies, policies, procedures and processes to deal with those risks
c. the firm's assessment of whether its financial resources are adequate to address those risks

d. procedures for reporting on compliance with the policy to the firm's governing body and senior management, and for ensuring that the policy is embedded within the firm's decision-making
e. triggers and scope for reviewing the policy in the light of changed conditions and factors affecting the firm's risk appetite, risk profile, business activities and financial resources, and
f. procedures for reporting the results of the reviews to the firm's governing body and senior management.

It is the responsibility of the firm to ensure staff clearly understand the firm's risk management strategy and policy, and the kinds of risk the firm is exposed to, so that they can identify, assess, manage and mitigate those risks effectively.

Professional Indemnity

An INMA firm must take out and maintain professional indemnity insurance either individually or as part of a group-wide policy. An INMA firm need not take out or maintain such insurance if another firm provides a guarantee for it. The amount of an INMA firm's professional indemnity cover must be determined by the firm's governing body, and must be adequate, having regard to the nature, scale and complexity of the firm's business. An INMA firm's professional indemnity insurance policy must provide:

a. cover for claims for which the firm may be liable as a result of its conduct or the conduct of its employees, the members of its governing body and its agents
b. appropriate cover for legal defence costs
c. continuous cover for claims arising from work carried out from when the firm was authorised to conduct a regulated activity in or from the QFC, and
d. cover for awards made against the firm under the customer dispute resolution scheme.

An INMA firm must not take out professional indemnity insurance that provides for the payment of fines imposed by the Regulatory Authority or the QFC Authority.

Before taking out or renewing a professional indemnity insurance policy with an insurer, the firm must be satisfied, on reasonable grounds after making an appropriate assessment, that the insurer is suitable to provide the policy to the firm. The firm must have systems and controls to ensure that the assessment remains correct.

In assessing whether an insurer is suitable, the firm must have regard to all the relevant circumstances, including the following:

a. the insurer's credit rating, capital and financial resources
b. its regulatory status and history
c. its expertise and market reputation
d. the regulatory and legal regimes of the jurisdiction in which it is located.

Every year, an INMA firm must give the Regulatory Authority a copy of the firm's professional indemnity insurance cover for the following 12-month period. In addition, the firm must notify the authority of any significant changes to the cover, including the level of cover and the renewal or termination of the cover: and of any significant claim against the firm of professional misconduct or negligence, or by the firm under its professional indemnity insurance cover.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What is the difference between a retail investor and a qualified investor?
Answer Reference: Section 1.1.5

2. List the four legal forms under which a collective investment fund can register.
Answer Reference: Section 1.2.2

3. For the prospectus, list the basic requirements, the supplementary information required, and the information required for the investor decision-making process.
Answer Reference: Section 1.4

4. How frequently must a firm review of its procedures?
Answer Reference: Section 2.2.1

5. State five criteria considered in relation to a person applying to become an authorised firm.
Answer Reference: Section 3

6. What business documents require disclosure of regulatory status?
Answer Reference: Section 3.1.1

7. What are the five areas that require authorised firms to notify the Regulatory Authority?
Answer Reference: Section 3.2

8. When is a report a protected report
Answer Reference: Section 3.3

9. List the components of a protected reporting policy.
Answer Reference: Section 3.3.1

10. List the minimum factors required in a training and competence programme.
Answer Reference: Section 4.2.1

11. Outline the five principles of training and competency of the INDI rulebook.
Answer Reference: Section 4.3

12. Calculate the minimum capital requirement for an insurance firm with $15 million net written premium, $6 million property insurance, $1.5 million liability insurance, and $7.5 million life insurance.
Answer Reference: Section 5.2.1

13. List the services of an insurance mediator.
Answer Reference: Section 6.1

14. List the instances in which a firm needs to notify the Regulatory Authority in relation to its capital requirements.
Answer Reference: Section 7.1

15. Describe the Internal Capital Adequacy Process.
Answer Reference: Section 7.2

16. List the components of a credit policy.
    Answer Reference: Section 7.3

17. What does a firm need to consider in choosing a credit risk mitigation technique?
    Answer Reference: Section 7.3.1

18. What are the components of the market risk capital requirement?
    Answer Reference: Section 7.4

19. List the principles associated with liquidity risk management
    Answer Reference: Section: 7.6

20. List the additional risk factors for liquidity risk in Islamic banks.
    Answer Reference: Section 7.7

21. List the components of a risk management policy of an Investment Management Advisory Rules firm.
    Answer Reference: Section 8.2

Glossary and Abbreviations

Annual Operating Expenditure

Annualised total of the expenses for the year to date that arose in the normal course of the firm's business.

Appeals Body

The Appeals Body of the QFC established pursuant to Article 8 of the QFC Law.

Approved Individual

An individual approved under the FSR, Article 41 to perform one or more controlled functions.

Approved Representative

Of an authorised firm; has the meaning given by COND, Rule 2.2.3 (1).

Authorisation

An authorisation granted by the Regulatory Authority under the FSR, Part 5 to carry on regulated activities.

Authorised Firm

A person that has been granted an authorisation in accordance with Part 5 of the FSR.

Body Corporate

Any body corporate, including a limited liability partnership, constituted under the Companies Regulations or the Limited Liability Partnership Regulations and a body corporate constituted under the law of a country or territory outside of the QFC.

Commodity

A physical asset (other than a financial instrument or cash) that is capable of delivery.

Complaint

An expression of grievance or dissatisfaction, by a customer (other than an eligible counterparty) either orally or in a durable medium, in connection with an authorised firm's provision of a product or service that is a regulated activity.

Companies Registration Office (CRO)

The Companies Registration Office established pursuant to Article 7 of the QFC Law.

Controlled Function

Controlled function means a function which involves:

a. the exercise of significant influence over the conduct of the firm's affairs in relation to regulated activities
b. dealing directly with clients or customers in relation to regulated activities, or
c. dealing with the property of clients or customers

and is specified as a controlled function in rules issued by the Regulatory Authority from time to time.

Credit Risk

The risk of default by counterparties and the risk that an asset will lose value because its credit quality is deteriorated.

Customer-Facing Function

Has the meaning given to it in INDI Section 2.1.

Derivative

A future, an option or a contract for differences.

Eligible Third-Party

A person (other than an eligible bank) that is an authorised firm, or in relation to whom all of the following requirements are satisfied:

a. The person is authorised (however described) under the law of a jurisdiction outside the QFC to carry on any investment business.
b. The person is principally regulated for prudential purposes by an overseas regulator in the jurisdiction.
c. The Regulatory Authority has not, by notice, declared that this definition does not apply to the jurisdiction.

Execute

In relation to a transaction, carry into effect or perform the transaction, whether as principal or as agent, including instructing another person to execute the transaction.

Execution-Only Transaction

A transaction which is executed by an authorised firm upon the specific instructions of a client when the authorised firm does not give advice on relevant investments relating to the merits of the transaction.

Financial Communication

Any communication (made via any medium including brochures, telephone calls and presentations) the purpose or effect of which is:

a. to promote or advertise:
   1. specified products, or
   2. any regulated activity (or any activity that would be a regulated activity if it was carried on in or from the QFC), or
b. to invite or induce any person:
   1. to enter into an agreement with any person in relation to a specified product; or
   2. to engage in any regulated activity (or an activity that would be a regulated activity if it was carried on in or from the QFC).

Independent Entity

a. Of a registered CIC or registered CIP – the person responsible for the safekeeping of the fund property.
b. Of a registered CIT – the person holding the fund property on trust for the participants in the fund.

Initial Disclosure Document

Of an authorised firm for a retail customer, a statement in writing or printable format containing the information required by COND, Rule 4.2.3 (Initial Disclosure Document – Content).

Insurance Mediation

1. Any of the following activities carried on in relation to a contract of insurance:
   a. dealing in investments
   b. arranging deals in investments, or
   c. advising on investments.
2. Insurance management.

Insurer

A person carrying on in the QFC either or both of the following regulated activities for which it has authorisation from the Regulatory Authority:

a. effecting contracts of insurance, or
b. carrying out contracts of insurance.

Internal Capital Adequacy Process (ICAAP)

Process by which the firm continuously demonstrates that it has implemented methods and procedures to ensure that it has adequate capital resources to support the nature and level of its risks.

Investment Research

A publication (other than a personal recommendation) which contains:

a. the results of research into a relevant investment or its issuer
b. analysis of factors likely to influence the future performance of a relevant investment or its issuer, or
c. advice or recommendations based on those results or analysis.

Issue

In COLL and in relation to units of a registered fund – the issue of a new unit by the operator.

Latest Filed Prospectus

Of a registered fund — the prospectus (including any revised or supplementary prospectus) of the fund most recently filed with the Regulatory Authority under COLL.

Liquid Assets

a. Cash in hand and demand deposits, term deposits accessible on demand, and money otherwise deposited with a bank, and
b. highly liquefiable investments that the Regulatory Authority determines to be appropriate to count as liquid assets (but subject to any direction of the authority about a haircut to be applied).

Liquidity Risk

Risk that a firm may not be able to meet its financial obligations as they fall due.

Liquidity Risk Tolerance

Also known as risk appetite. Both the absolute risk a firm is open to take and the actual limits that the firm pursues.

Local Firm

An authorised firm which is a QFC entity.

Material Interest

In relation to a transaction, any interest of a material nature, other than disclosable commission on the transaction.

Material Outsourcing

Outsourcing of a process, service or activity of such importance that weakness or failure in the provision of the outsourcing would cast serious doubt on the authorised firm's ability to comply with the firm's obligations under regulations, principles, the conditions and obligations of its authorisation, its financial performance, its financial position or the continuity of its operations.

Members

A member of a company as defined in Article 19 of Companies Regulations as the incorporators of an LLC are deemed to have agreed to become members of the LLC by signing the incorporation document and on incorporation shall be entered as such in the LLC's register of members (other than any who have died or been dissolved).

Non-Investment Insurance Contracts

A contract of insurance which is a general insurance contract or a pure protection contract but which is not a long-term care insurance contract.

Operator

Of a registered fund – the person responsible for the management of the fund property.

Overseas Regulator

A regulatory or governmental authority, body or agency in a jurisdiction outside the QFC (whether in the State or otherwise).

Parent Entity

An entity which, with respect to another entity:

a. holds a majority of the voting rights in that other entity
b. is a member of that other entity (whether direct or indirect, or through legal or beneficial entitlement) and has the right to appoint or remove a majority of the board of directors of that other entity
c. has the right to exercise a dominant influence over the management and operation of that other entity through:
    1. provisions contained in the constitutive documents of that other entity, or
    2. any contractual arrangement relating to the management and operation of that other entity
d. is a member of that other entity (whether direct or indirect, or through legal or beneficial entitlement) and alone, or together with one or more associate(s) holds a majority of the voting rights in that other entity; or is a parent entity of any entity which is a parent entity of that other entity.

Person

Any person, including a natural or legal person, body corporate, or body unincorporate, including a branch, company, partnership, unincorporated association or other undertaking, government or state.

Personal Account Transaction

A transaction by an authorised firm for the account of a relevant person.

Problem Asset

Includes impaired credits and other assets if there is a reason to believe the amount due will not be collectable in full or in accordance with their terms.

Relevant Investments

1. For COND, any of the following products:
    a. a share
    b. a debt instrument
    c. a warrant
    d. a securities receipt
    e. a unit in a collective investment fund
    f. an option
    g. a future
    h. a contract for differences
    i. a life policy
    j. rights in investments relating to a product.
2. For any other rulebook, any of the following products:
    a. a share
    b. a debt instrument
    c. a warrant
    d. a securities receipt
    e. a unit in a collective investment fund
    f. an option
    g. a future
    h. a contract for differences
    i. a long-term insurance contract
    j. rights in investments relating to a product.

Retail Customer

1. In respect of regulated activities other than in connection with insurance business and insurance mediation business, any person who is not a market counterparty or a business customer.
2. In respect of insurance business and insurance mediation business, any person who is not a commercial customer.

Risk Management Function

The risk management function is the function of having responsibility in relation to setting and controlling an authorised firm's risk exposure as provided in CTRL, Section 4.4.

Soft Commission Agreement

An agreement, in any form, under which a person agrees to pay for the supply of goods or services that a third-party provides to an authorised firm, in return for an agreed volume of business at an agreed commission rate.

Sub-Scheme

Of an umbrella fund – a separate part of the fund property that is pooled separately.

Terms of Business

Of an authorised firm for a customer, a statement in writing or printable format of the terms on which the firm will conduct investment business or deposit-taking business with or for the customer.

Third-Party Account

An account with an eligible third-party in which client money is or is to be held.

Trading Book

Positions held by the firm (whether on- or off-balance-sheet) that must be included in the trading book.

Tribunal

The Tribunal established by the TDR Regulations.

Umbrella Scheme

A collective investment scheme under which the contributions of the unitholders, and the profit or income out of which payments are to be made to them, are pooled separately in relation to separate parts of the fund property.

Unitholder

For a unit of a collective investment fund:

a. if the unit is represented by a bearer certificate – the bearer of the certificate, or
b. if the unit is not represented by a bearer certificate – the person whose name is entered for the unit in the fund's unitholder register or, for a foreign fund, the fund's records (however described).

Unit in a Collective Investment Fund

6.1 Units in a collective investment fund within the meaning of paragraph 6.2.
6.2 Subject to paragraphs 6.5 and 6.6, collective investment fund is any arrangement:
   1. the purpose or effect of which is to enable persons taking part in the arrangements (the participants) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of property or sums paid out of such
   2. that meets the property condition in paragraph 6.3 and the investment condition in paragraph 6.4.
6.3 An arrangement will meet the property condition referred to in paragraph (2) if:
   1. the arrangement is made with respect to property of any description, including money, whether the participants become owners of the property or any part of it or otherwise, and
   2. any of the participants do not have day-to-day control over the management of the property, whether or not they have the right to be consulted or give directions in respect of the property.
6.4 An arrangement will meet the investment condition referred to in paragraph 6.2 if:
   1. the contributions of the participants and the profits or income out of which payments to be made are pooled; and
   2. the property is managed as a whole by or on behalf of the operator of the scheme.

Multiple Choice Questions

The following additional questions have been compiled to reflect as closely as possible the examination standard that you will experience in your examination. Please note, however, they are not the CISI examination questions themselves.

1. Which of the following is a regulated insurance mediation activity?

   A. Loss adjusting
   B. Arranging for other persons to purchase an insurance contract
   C. Captive insurance management
   D. Expert appraisal of insurance claims

2. For any business which is not insurance or insurance mediation in relation to non-investment insurance contracts, customers are defined into which of the following categories?

   A. Wholesale and retail
   B. Business and retail
   C. Corporate and personal
   D. Company and individual

3. Collective investment schemes are subject to which of the following two conditions?

   A. Property and investment condition
   B. Participant and contribution condition
   C. Collective and division condition
   D. Profit and loss condition

4. Which of the following is NOT a principle for anti-money laundering (AML) and combating the financing of terrorism (CFT)?

   A. Risk-based approach
   B. Know your customer
   C. Management responsibility
   D. Evidence of compliance

5. An LLC may not give any financial assistance towards the purchase of its shares. Which one of the following is considered financial assistance in this respect?

   A. Dividends
   B. Bonus shares
   C. Debentures
   D. Capital reduction

6. What classification must be used if an authorised firm has any doubt about a client classification?

   A. Business customer
   B. Commercial customer
   C. Eligible counterparty
   D. Retail customer

7. Collective investment schemes that are registered as a private placement scheme may not have more than:

   A. 50 unitholders
   B. 100 unitholders
   C. 150 unitholders
   D. 200 unitholders

8. Which of the following is an objective of the QFC Regulatory Authority?

   A. Ensure adequate financial resources and stability
   B. Establish appropriate legal and regulatory regime
   C. Provide appropriate protection to the clients or customers of authorised firms
   D. Promote international best practice

9. Policies, procedures, systems and controls in place for the prevention of being used to facilitate money laundering and terrorist financing must be:

   A. risk-sensitive, appropriate and adequate
   B. highly detailed irrespective of the actual risk
   C. high level only
   D. the same level throughout the organisation

10. A business customer needs to have an annual net turnover of at least:

    A. QR8 million
    B. QR18 million
    C. QR25 million
    D. QR30 million

11. Which of the following is NOT the responsibility of the operator of a collective investment fund?

    A. Ensure investment objectives are met
    B. Maintain the unitholders' register
    C. Preparation of valuations
    D. Safeguarding the assets

12. Which of the following is NOT the constitutional document for a QFC scheme?
    A. Memorandum of association of the company
    B. Partnership agreement of the partnership
    C. Trust instrument of the trust
    D. Instrument creating the legal form of the entity

13. Which of the following scenarios might be considered suspicious in regard to money laundering?
    A. Person X pays person Y 10,000 riyals in cash for a second-hand car
    B. Person X enters into a complex derivatives contract that does not reflect their business needs
    C. Person X agrees to keep a large amount of cash in a safe for person Y
    D. Person X is introduced to the bank via an authorised financial intermediary

14. Which of the following is considered to be an eligible counterparty?
    A. Business customer
    B. Market counterparty
    C. Body corporate
    D. Supranational organisation

15. What is the minimum age at which a person may enter into a contract?
    A. 16 years
    B. 18 years
    C. 21 years
    D. 25 years

16. Members of an limited liability company (LLC) can request a special general meeting if they hold what percentage of shares?
    A. 3%
    B. 5%
    C. 10%
    D. 15%

17. In which of the following cases should an authorised firm ensure that it does NOT offer, give, solicit or accept an inducement?
    A. If the firm deals only with eligible counterparties
    B. If the firm transacts business overseas
    C. If the inducement is likely to conflict with the firm's duty to its customers
    D. If the inducement is likely to conflict with internal policy

18. Who approves the corporate governance framework?
    A. Board of directors
    B. Senior management
    C. Head of business line
    D. Head of department

19. What is regarded as the time period for giving adequate notice to a customer of the end of the term of a general insurance policy?
    A. 14 days
    B. 21 days
    C. 28 days
    D. 30 days

20. When must an authorised firm disclose any soft commission agreement to customers?
    A. On completion of the first transaction in designated investment business
    B. Only when they sign a customer agreement
    C. When it affects the customer
    D. When the firm sends out the first valuation

21. Within what timescale must a firm provide a complainant with an acknowledgement of a complaint in a durable medium?
    A. One business day
    B. Two business days
    C. Three business days
    D. Five business days

22. Which of the following activities is an exemption under the specified activity of dealing in investments?
    A. Buying company shares for an employee share scheme
    B. Financing activities carried out by a special purpose vehicle
    C. Investments made by a trustee for a beneficiary
    D. Providing legal or accountancy services

23. What is an authorised firm's regulatory responsibility for outsourced activities?

    A. It retains full responsibility
    B. It has no responsibility for those activities outsourced
    C. It has a monitoring responsibility only
    D. It transfers the responsibility to the third party

24. Any errors that affect customers must be resolved in a timely manner and at least within:

    A. One week after the date it was discovered
    B. One month after the date it was discovered
    C. Three months after the date it was discovered
    D. Six months after the date it was discovered

25. Which of the following documents is exempt from requiring the regulatory status disclosure of an authorised firm?

    A. Business cards
    B. Compliments slips
    C. Terms of business
    D. Websites

26. AML/CFT policies, procedures, systems and controls need to be reviewed on a regular basis and at a minimum:

    A. Monthly
    B. Quarterly
    C. Half-yearly
    D. Yearly

27. Which of the following is an injunction available to the QFCRA?

    A. Restraining a contravention of a relevant requirement
    B. Restricting a firm from carrying on business in a specific manner
    C. Overruling procedural irregularities
    D. Disallowing a person to appeal to the appeal body

28. Errors that affect customers must be resolved within:

    A. Five business days
    B. 15 business days
    C. 40 business days
    D. 60 business days

29. What is the usual time period an authorised firm must retain documents?
    A. Three years
    B. Five years
    C. Six years
    D. Ten years

30. An investment agreement needs to contain which of the following?
    A. Personal details
    B. Stock lending
    C. Firm address and QFC registration
    D. If the customer is renewing an existing policy

31. Under the rules all advertisements produced in a durable medium are obliged to contain which of the following statements?
    A. Comparisons with different types of investments
    B. Firm's name and address or point of contact
    C. Past performance information
    D. Statement requesting future contact

32. How long do records need to be kept?
    A. All records for six years
    B. Transactions for six years, everything else ten years
    C. Transactions for ten years, everything else six years
    D. All records need to be kept for ten years

33. Ensuring that all officers, employees, agents and contractors abide by the relevant requirements regarding AML/CFT Law is the responsibility of:
    A. the individuals
    B. department heads
    C. division heads
    D. the firm

34. Which of the following types of legal entity provides for the segregation of assets and liabilities of different classes of shares?

    A. Limited liability company
    B. Limited partnership
    C. Protected cell company
    D. Protective trust

35. The intensity of the firm's approach to the mitigation of the risk of being used as a facilitator for money laundering or the financing of terrorism has to be based on:

    A. market risk assessment
    B. threat assessment
    C. business risk assessment
    D. operational risk assessment

36. In order to correctly classify a customer, an authorised firm may rely on:

    A. information from an approved third party
    B. a signed statement from a family member
    C. a guarantor
    D. a signed statement from the client

37. Which of the following is NOT a principle of conduct for approved individuals?

    A. Integrity
    B. Skill, care and diligence
    C. Relations with the regulator
    D. Personal conduct

38. When classifying a customer for credit arrangement business as a business customer, the client needs to have net assets of at least:

    A. QR1 million
    B. QR2 million
    C. QR4 million
    D. QR10 million

39. A firm must decline to act on behalf of a client if:

    A. they have a conflict of interest they cannot manage
    B. the client has a personal relationship with a senior staff member
    C. the firm has proof of personal account dealing
    D. the customer is represented by an agent

40. Which of the following is NOT mandatory for a limited partnership?
    A. One or more general partners each with unlimited liability
    B. One or more limited partners each with limited liability
    C. One managing director with unlimited liability
    D. Partners need to be registered

41. Which of the following is NOT a criterion for the fitness and propriety of an individual to be a controlled function but would still be taken into account in the assessment?
    A. Competence and capability
    B. Financial soundness
    C. Honesty, integrity and reputation
    D. Significant influence

42. Systems and controls need to be in place to ensure that the authorised firm can identify and manage actual and potential conflicts of interest and material interest. Which of the following is an action the authorised firm should take?
    A. Set-up an effective Japanese wall
    B. Disregard any objections from the client
    C. Disclose known conflicts
    D. Notify the client of any action taken

43. Goods and services received under a soft commission agreements need to be:
    A. reported to the tax authority
    B. distributed equitably to all clients
    C. maintainted by the firm to off-set transaction costs
    D. used to provide services to clients

44. Which party is responsible for ensuring the AML/CFT rules are complied with for outsourced functions?
    A. The company to whom the activity is outsourced
    B. The department responsible for the relationship with the third party
    C. The external auditor
    D. Senior management of the authorised firm

45. Prior to entering into an investment agreement, the firm needs to ensure the service is appropriate and they have sufficient personal and financial information. This requirement applies to which customer?

    A. Individual opted up to a business customer

    B. Business customer

    C. Individual opted up to an eligible investor

    D. Eligible investor

46. When a customer refuses to provide personal and financial information, the firm must warn the customer that this may:

    A. adversely affect the service provided by the firm

    B. require the firm to cancel the agreement

    C. result in penalties charged to the customer

    D. be reported to the regulator for sanction purposes

47. The Shariah Supervisory Board of a firm must approve advertisements for?

    A. Products represented as being Shariah compliant

    B. Products offered by a fully Shariah-compliant firm only

    C. All products offered to Muslim clients

    D. Conventional products offered to Muslim clients

48. Advertisements need to be:

    A. accurate, relevant and in writing

    B. clear, fair and not misleading

    C. detailed, logical and complete

    D. open, honest and without omissions

49. Which of the following instruments is listed under the specified product definition of a 'debt instrument'?

    A. Bills of exchange

    B. Certificate of deposit

    C. Lease on a property

    D. Letter of credit

50. The terms of a trust need to be for the benefit of?

    A. The trustees
    B. The beneficiaries
    C. The bank
    D. The QFC

51. What should an authorised firm do if there is insufficient evidence to identify a customer?

    A. Classify the transaction as execution-only
    B. Complete the transaction
    C. Discontinue the transaction
    D. Seek third-party verification

52. Which of the following is NOT permitted to appoint an administrator?

    A. Company members by ordinary resolution
    B. Directors of a company
    C. Liquidator
    D. Secured creditor

53. Tipping off is the disclosure of information that may lead applicants to believe they are under investigation in relation to money laundering or terrorist financing. In which of the following circumstances will the MLRO have to consider the offence of tipping off?

    A. A suspicious transaction report is made to the FIU
    B. The client is made aware of irregularities in their identification information
    C. A staff member discusses a possible case of money laundering with a colleague
    D. An inquiry of senior management into the progress of a particular transaction

54. For advertisements that contain estimated future performance, the future performance:

    A. may be based on simulated past performance
    B. does not need to be supported by objective data
    C. needs to be based on reasonable assumptions
    D. must be based on gross performance

55. When is an authorised firm generally permitted to make telephone contact with a customer?

    A. Between 08:00 and 22:00 on any business day
    B. Between 09:00 and 21:00 on any business day
    C. Between 06:00 and 13:00 on any business day
    D. Between 07:00 and 15:00 on any business day

56. A data controller may NOT process personal data in which of the following situations?

    A. Data subject has given consent
    B. Processing is not related to a contract the subject is party to
    C. Processing is related to protecting the vital interest of the party
    D. Processing is related to legitimate interest of the data controller

57. Unsolicited calling of retail customers is permitted as long as the firm:

    A. offers to enter into a relevant agreement with the customer
    B. invites the customer to make an offer for a relevant agreement
    C. makes the call outside working hours
    D. has provided a similar product within the previous 12 months

58. Which of the following is true in relation to a protected report?

    A. It can be made to an unrelated firm
    B. It has to be made in good faith
    C. It can only contain information on things that have happened
    D. It may not be related to a criminal offence

59. Customer due diligence needs to be undertaken for all customers and contains which two main components?

    A. Risk and profitability
    B. Employment status and home ownership
    C. Person and economic activity
    D. Political position and amount of wealth

60. The QFCRA or an investigator may require a person to:

    A. attend a meeting
    B. write a memo
    C. be available at all times
    D. take an exam

61. Fees and charges to customers may:

    A. not be dependent on the value of an investment
    B. be related to research without details
    C. be incurred for specific research
    D. be excessive if the risk is higher

62. Prudential returns have to be prepared:
    A. weekly
    B. monthly
    C. quarterly
    D. semi-annually

63. What must an employee do if they wish to deal on their own account?
    A. Deal only at a specified time of day
    B. Deal only in selected investments
    C. Ensure there is no conflict with the firm's duties
    D. Arrange for others to enter into the transaction

64. Past performance in advertisements must:
    A. never be the most prominent feature
    B. always cover more than five years
    C. only be based on gross performance
    D. be based on six-month periods

65. Under what circumstances would the terms of a trust NOT prevail?
    A. Trustee acts in good faith
    B. Trustee's compensation is considered appropriate
    C. Trust's property is transferred to another trust
    D. Trust's purpose contrary to public policy

66. Which of the following activities is NOT covered by the rules on abusive conduct?
    A. Disseminating misleading price information
    B. Effecting transactions with fictitious devices
    C. Enticing someone to deal with inside information
    D. Facilitating the retention of criminal property by another person

67. An authorised firm may only hold itself out as acting independently if it:
    A. is party to any arrangements with a product provider
    B. gives advice on a sufficiently large range of products
    C. does not give a purely fee-based option to customers
    D. only provides packaged products

68. A whistleblower:

    A. does not have to act in good faith
    B. is an employee
    C. only reports crimes
    D. can be dismissed

69. When is an authorised firm required to disclose any dealing commission arrangements regarding general insurance business?

    A. On completion of the first transaction
    B. Only when it signs a customer agreement
    C. Prior to conducting any business
    D. When requested by the customer

70. In the event a complaint is referred (in whole or in part), the receiving firm must notify the firm within:

    A. 24 hours
    B. Two business days
    C. Five business days
    D. Ten business days

71. Within how many business days should an authorised firm apply to the Regulatory Authority for the withdrawal of an approved individual from a controlled function?

    A. Five
    B. Ten
    C. 15
    D. 20

72. The base capital requirements of a Class 1 captive insurer is:

    A. QR540,000
    B. QR900,000
    C. QR1,400,000
    D. QR3,600,000

73. When does a firm need to provide an initial disclosure document?

    A. At the first face-to-face meeting
    B. On completion of the first transaction
    C. Prior to conducting any business
    D. When requested by the customer

74. Which of the following is considered a contravention of a relevant requirement under Article 84?

    A. Has aided, abetted or counselled another person
    B. Has conspired with others
    C. Has failed to comply with a prohibition imposed
    D. Has induced by threats or promises another person

75. Who is eligible to apply to the independent adjudicator?

    A. Market counterparties
    B. Retail customers
    C. Authorised firms
    D. Institutional investors

Answers to Multiple Choice Questions

1. Answer: B Chapter 6, Section 6.1

Insurance mediation is a regulated activity if it is offered by way of business and encompasses a range of services in relation to contracts of insurance including:

1. giving advice regarding purchase and sale
2. making arrangements for other persons to purchase an insurance contract, and
3. assisting in the administration or performance on behalf of policy holders.

The following activities are specifically excluded from insurance mediation:

- loss adjusting
- expert appraisal of insurance claims
- advice given in newspapers, journals, magazines or similar publications where the main purpose is not to influence people's decision-making process. This includes advertisements and other promotional material
- providing a means by which a party to the transaction can communicate with other parties to the transaction
- captive insurance management.

2. Answer: B Chapter 5, Section 1

The definition for customer differs depending on the type of business. For insurance and insurance mediation business in relation to non-investment insurance contracts, a customer can be either a commercial customer or a retail customer. For any other business, a customer is either a business customer or a retail customer.

3. Answer: A Chapter 6, Section 1.1

Collective investment schemes need to meet the property and investment conditions.

4. Answer: C Chapter 4, Section 3

The principle is Senior Management Responsibility. The six principles of AML and CFT are Senior Management Responsibility, Risk-Based Approach, Know Your Customer, Effective Reporting, High Standard Screening and Appropriate Training, and Evidence of Compliance.

5. Answer: C Chapter 2, Section 1.2.3

Financial assistance consists of financial assistance of any kind and includes loans, gifts, issuance of debentures, giving security over assets or giving a guarantee or indemnity. Dividend payments, distributions made as part of winding up the LLC, allocation of bonus shares, reduction of capital, or a redemption or purchase of shares are not considered to be financial assistance.

6. Answer: D Chapter 5, Section 1.4

There are three classifications of client – business customer, counterparty and retail customer. If an authorised firm has any doubts about a client classification, then it must classify the client as a retail customer.

7. Answer: B Chapter 6, Section 1.1

Private placements have no more than 100 unitholders.

8. Answer: C Chapter 1, Section 2.2

The QFC Regulatory Authority has eight objectives including the provision of appropriate protections to those licensed to carry on business at the QFC and their clients or customers. The QFC Authority has five objectives which include the promotion of international best practice, ensuring the QFC has the financial resources and stability to undertake its activities and to establish, develop and promote a legal and regulatory regime.

9. Answer: A Chapter 4, Section 3.2.1

A firm must develop a programme against money laundering and terrorist financing. A firm's AML/CFT policies, procedures, systems and controls must be risk-sensitive, appropriate and adequate, having regard to the risk of money laundering and terrorist financing and the size, complexity and nature of its business.

10. Answer: D Chapter 5, Section 1.1

Business customers need to have an annual net turnover of at least QR30 million.

11. Answer: D Chapter 6, Section 1.1.2

The operator of a collective investment fund must not have responsibility for the safekeeping of the assets of the fund. This is undertaken by an independent entity. The operator must ensure the fund complies with the investment objectives set out in its constitution, provide valuations and pricing and maintain a register of unitholders.

12. Answer: A Chapter 6, Section 1.3

The constitutional document can be the articles of association, partnership, trust instrument or any the instrument creating the legal form of the entity.

13. Answer: B Chapter 4, Section 3.2.2

One of the indicators of potential money laundering or financial crime is complex or unusual large transactions, and unusual patterns of transactions, that have no apparent economic or visible lawful purpose.

14. Answer: D Chapter 5, Section 1.2

An eligible counterparty is any of the following:

A. Regulated financial institutions.
B. Eligible clearing house or eligible exchange (see below).
C. Government, government agency, central bank, or other national monetary authority of any jurisdiction.
D. State investment body, or a body responsible for the management of public debt.
E. Supranational organisations whose membership consists of jurisdictions, central banks, or national monetary authorities.

15. Answer: B Chapter 3, Section 1.1

Any person is free to enter into a contract providing that they are aged 18 years or over and not declared incapable due to mental illness.

16. Answer: C Chapter 2, Section 1.4.2

The directors of an LLC must proceed to call a special general meeting upon receipt of a request by members holding at least 10% of the shares entitled to vote.

17. Answer: C Chapter 5, Section 2.3

An authorised firm must have policies and procedures in place regarding inducements. No inducement can be solicited, offered, accepted or given if it is likely to conflict in a material way with its duty owed to its customers.

18. Answer: A Chapter 6, Section 2.1

It is the responsibility of the board of directors to approve a corporate governance framework that is appropriate to the nature, scale and complexity of the firm's business.

19. Answer: B Chapter 5, Section 5.3.3

An authorised firm must give adequate notice of the end of the term of the contract to a retail customer and not less than 21 days is adequate notice.

20. Answer: C Chapter 5, Section 2.3.3

Any soft commission agreement is subject to the following conditions:

A. Any business transacted under the agreement must not conflict with the best interest of customers.
B. If the customer may be affected by the agreement, the customer must be made aware of the agreement and how it may affect them.
C. A copy of the agreement must be made available to a customer on request.
D. Goods or services received by the firm under the agreement must be used to provide services to customers.
E. Any changes in policy on the agreements must be promptly communicated to any affected customers.

21. Answer: D Chapter 5, Section 2.6

An authorised firm must provide the complainant with an acknowledgement of the complaint in a durable medium within five business days after the day in which the complaint is received.

22. Answer: A Chapter 1, Section 2.4.6

Dealing in shares undertaken by an employee share scheme falls within the employee share scheme exemption in relation to the specified activity of dealing in investments.

23. Answer: A Chapter 6, Section 2.4

An authorised firm may outsource any of its activities but it cannot avoid its regulatory obligations and remains responsible with compliance with the rules for those activities.

24. Answer: D Chapter 5, Section 2.5

Errors must be resolved in a timely manner, and at the latest within six calendar months after the date it was discovered.

25. Answer: B Chapter 6, Section 3.1.1

Authorised firms are required to disclose their regulatory status on business documents which include business cards, letterhead, terms of business and websites but does not include compliments slips, account statements and text messages.

26. Answer: D Chapter 4, Section 3.2.3

In order to ensure the AML/CFT policies, procedures, systems and controls remain adequate and effective, they must be reviewed on a regular basis. The review needs to be carried out at least annually.

27. Answer: A Chapter 1, Section 3.2.6

Three different injunctions are available to the QFCRA:

- order restraining a contravention of a relevant requirement
- order requiring steps to be taken to remedy the contravention
- an order retraining a person from disposing of, or otherwise dealing with, any of its assets.

28. Answer: C Chapter 5, Section 2.5

Errors affecting customers that are not resolved within 40 business days after they are discovered need to be reported to the Regulatory Authority within five business days after the 40-day period has ended.

29. Answer: C Chapter 6, Section 3.1.3

All records and documents must be maintained by an authorised firm for six years unless otherwise stated for a specific document.

30. Answer: B Chapter 5, Section 4.2

The investment agreement must contain the following:

a. Portfolio composition and initial value – the initial composition and value of the portfolio and its on-going composition:
b. Discretion – the extent of the firm's discretion and whether there are any restrictions or limits:
c. Valuation – the basis on which the assets being managed are to be valued:
d. Underwriting – whether the firm is permitted to commit the customer to an obligation to underwrite or sub-underwrite an issue or offer of securities and, if so, any restrictions or limits of the extent of the underwriting:
e. Borrowing – whether the firm is permitted to borrow on the customer's behalf, and, if so:
    A. the circumstances in which it may borrow
    B. the limits on such borrowing, and
    C. the circumstances (if any) in which the limits can be exceeded.
f. Stock lending – whether or not the firm is permitted to undertake stock lending with or for the customer, and, if so:
    A. the assets to be lent
    B. the type and value of collateral from the customer, and
    C. the method and amount of payment owing to the customer in the lending.

31. Answer: B Chapter 5, Section 3.1.3

If an authorised firm makes or approves a written advertisement, it must ensure that it contains the name and address, or point of contact for the firm.

32. Answer: C Chapter 5, Section 5.1.5

Authorised firms must maintain complete and readily accessible records. Details of transactions need to be retained for ten years after the date of discontinuation, or completion of the transaction. All other records must be kept six years from the date on which the firm last provided any product or service to the customer concerned, or the period specified in a rule, whichever is longer.

33. Answer: D Chapter 4, Section 3.3.1

It is the responsibility of the firm to ensure that all its officers, employees, agents, and contractors comply with the requirements of the AML/CFT Law and Rules as well as the firm's AML/CFT policies, procedures, systems and controls.

34. Answer: C Chapter 2, Section 2.1.1

A protected cell company (PCC) is a form of legal entity which segregates the assets and liabilities of different classes of shares from each other and from the general assets of the PCC.

35. Answer: B Chapter 4, Section 3.4

A firm must conduct an assessment of the money laundering and terrorist financing risks that it faces (a business risk assessment). Once it has defined the risks, the firm must decide what action is needed to mitigate them. The intensity of a firm's approach to the mitigation of its money laundering and terrorist financing risks must be based on a suitable methodology (a threat assessment methodology) to address the risks that it faces.

36. Answer: D Chapter 5, Section 1.4.1

In the event the firm cannot obtain sufficient evidence showing that the customer meets the minimum net asset requirement, they may rely on a signed statement by the customer confirming the value of their net assets meets the requirements.

37. Answer: D Chapter 6, Section 4.1

The principles of conduct for approved individuals are integrity, due skill, care and diligence, market conduct, relations with the regulatory authority, and appropriate priority for management and compliance.

38. Answer: D Chapter 5, Section 1.1

A credit arrangement business is a business customer when it is a body corporate meeting all of the following:

a. Net asset of at least QR10 million
b. regulated activities they will undertake are limited to arranging credit facilities and/or providing credit facilities,
c. The credit facility arranged or provided does not have embedded derivatives or attached hedging instruments, and
d. Credit facility arranged or provided is only to be used in the business activities of:
    - the customer
    - another body corporate that is a member of the same group, or
    - a joint venture to which the customer (or a member of the same group) belongs.

39. Answer: A Chapter 5, Section 2.2.2

In any situation when a firm finds itself unable to manage a conflict or potential conflict, the firm must make the decision not to carry on with that business for the client.

40. Answer: C Chapter 2, Section 3.2

A partnership needs to have at least one general partner with unlimited liability and at least one with limited liability, all of which must be registered. A managing director is not a requirement.

41. Answer: D Chapter 6, Section 4.3

When making an assessment of an application by an individual for a controlled function, the Regulatory Authority will consider the fitness and propriety under the headings of honesty, integrity and reputation: competence and capability: and financial soundness.

42. Answer: C Chapter 5, Section 2.2

In order to manage conflicts of interest and material interests, the authorised firm must set up effective Chinese walls, disclose any known conflicts, and notify the client of any action taken.

43. Answer: D Chapter 5, Section 2.3.3

If an authorised firm, or a member of its group, has a soft commission agreement. It must be recorded in a durable medium. Any soft commission agreement is subject to the following conditions:

a. Any business transacted under the agreement must not conflict with the best interest of customers.
b. If the customer may be affected by the agreement, the customer must be made aware of the agreement and how it may affect them.
c. A copy of the agreement must be made available to a customer on request: Goods or services received by the firm under the agreement must be used to provide services to customers.
d. Any changes in policy on the agreements must be promptly communicated to any affected customersor.

44. Answer: D Chapter 4, Section 3.3.3

When outsourcing a function or activity the firm and its senior management remain responsible for ensuring that the AML/CFT Laws and rules are complied with.

45. Answer: A Chapter 5, Section 4.8.2

Prior to entering into (or proposing to enter into) a discretionary investment agreement with a retail customer or an individual who is opted up to a business customer, the authorised firm must take reasonable steps to ensure that:

a. they have sufficient personal and financial information about the customer
b. the service set out in the agreement is suitable for the customer, taking into account what the customer has told the firm and anything else that the firm knows or reasonably ought to know about the customer.

In addition, the firm must be satisfied that:

- the service is appropriate for the customer
- the customer is likely to continue to be able to meet the financial commitment associated with the service
- the customer is financially able to bear any risks associated with the service, and
- the firm must give the customer a statement, in a durable medium, of why the firm considers the service suitable for the customer.

46. Answer: A Chapter 5, Section 4.2

If a customer refuses to provide personal or financial information when requested by the firm, the firm must warn the customer, in a durable medium, that failure to give the information may adversely affect the quality of the service that the firm provides. The firm must retain a record of the customer's refusal.

47. Answer: A Chapter 5, Section 3.1

Rules require that an authorised firm must not make or approve an advertisement for a product or service that is represented as being Shariah compliant unless the product or service has been approved by the firm's Shariah supervisory board.

48. Answer: B Chapter 5, Section 3.1.3

An authorised firm must ensure that advertisements are clear, fair and not misleading.

49. Answer: B Chapter 1, Section 2.5.2

For the purposes of the regulations, the category of debt instruments within specified products includes debenture, debenture stock, loan stock, bonds and certificates of deposit. Bills of exchange, letters of credit and property leases are not considered debt instruments.

50. Answer: B Chapter 2, Section 4.1

The trust and its terms need to be:

- for the benefit of a beneficiary whether or not yet ascertained or in existence, or
- any valid purpose that is not for the sole benefit of the trustee

51. Answer: C Chapter 4, Section 3.5.2

Anti-money laundering regulations require the identification of a customer prior to undertaking a transaction. If the customer does not provide sufficient identification during the process then the transaction should be discontinued and any understanding with the customer bought to an end.

52. Answer: C Chapter 3, Section 2.2

An administrator cannot be appointed if the company has gone into liquidation. The directors, company members (by ordinary resolution) and a secured creditor may appoint an administrator.

53. Answer: B Chapter 4, Section 3.6

Tipping off, in relation to an applicant for business or a customer of a firm, is the unauthorised act of disclosing information to the customer that will lead the applicant, customer or third party to believe that they are under investigation relating to money laundering or terrorist financing or will be reported on a suspicious transaction report. Making a client aware of irregularities is not necessarily a case of tipping off, but will need to be investigated further.

54. Answer: C Chapter 5, Section 3.3.3

If an authorised firm makes or approves an advertisement that includes or refers to a forecast of the future performance of a regulated activity or specified product, it must ensure that:

- the forecast is not based on, and does not refer to, simulated past performance
- the forecast is based on reasonable assumptions supported by objective data
- if the forecast is based on net performance – all commissions, fees or other charges are taken into account in the forecast, and is not based on gross perfromance, and
- the advertisement contains a prominent warning that forecasts are estimates only, and are not a reliable indicator of future performance. The warning must appear near the information on past performance and may not be provided by way of a footnote.

55. Answer: B Chapter 5, Section 3.2.5

An authorised firm may make telephone contact with a retail customer only between the hours of 09.00 and 21.00, Saturday to Thursday (and not on a religious, public or bank holiday), unless otherwise agreed with the customer.

56. Answer: B Chapter 4, Section 1.1

Processing has to be necessary for the performance of a contract in which the subject is a party.

57. Answer: D Chapter 5, Section 3.4.1

Authorised firms may make unsolicited contact with retail customers by phone in the following events:

a. The firm has, within the previous 12 calendar months, provided the customer with a product or service similar to the product or service that is the purpose of the telephone contact.
b. The customer holds a product that requires the firm to maintain contact with the customer, and the contact is about the product.
c. The customer has previously consented in a durable medium to being contacted by telephone by the firm.

58. Answer: B Chapter 6, Section 3.3

A protected report is a report that meets all of the following requirements:

a. it is made in good faith meaning the individual who made the report believes on reasonable grounds that it is true
b. it is about an authorised firm or a person connected with such a firm
c. it is made to the firm itself or an authority or,
    - an officer of the authorised firm concerned
    - an officer of the regulatory authority
    - an officer of the State to whom crimes may be reported under Law No (23) of 2004, or whose responsibilities include the matters that are referred to in the report, or
    - a regulatory or governmental authority, body or agency in a jurisdiction outside the QFC (whether in Qatar or not), including a body or officeholder responsible for enforcing the criminal law of the jurisdiction.
d. if it is made to an authority or officer, the authority or officer is responsible for matters of the kind reported
e. it gives information that the reporter believes shows that any of the following has happened, is happening, or is likely to happen:
    - a criminal offence (whether under the law of Qatar, or of another jurisdiction)
    - a contravention of a relevant requirement, or a failure to comply with a legal obligation of another kind
    - the endangering of the health and safety of an individual
    - a breach of an authorised firm's policies and procedures (including, for example, a breach of any code of conduct or policy in relation to ethical behaviour)
    - the deliberate concealment of a matter referred to in any of subparagraphs (i) to (iv).

59. Answer: C Chapter 4, Section 3.5.1

CDD consists of two main components, the person and their economic activity.

60. Answer: A Chapter 1, Section 3.1.4

The QFCRA or an investigator may require a person to attend a meeting: to produce specific documents or documents of a specific description: and/or to provide any other information or assistance. Any such request needs to be in writing, and may specify a time and place, as well as a reasonable time period to produce the requested information or documents.

61. Answer: C Chapter 5, Section 5.4.1

It is the obligation of an investment manager or investment intermediary to ensure their fees and charges to customers are not excessive. When calculating charges that depend on the value of the investments (including packaged investment products) that are not readily realisable, the valuation of the charges must be either:

a. the price likely to be agreed between a willing buyer and a willing seller who are dealing at arm's length and who both have all the information that is freely available about the investments, or
b. in the case of a packaged investment product that is an insurance contract, the value that the customer would receive if the contract were terminated or surrendered.

Specific research charges may only be charged in accordance with the firm's agreement with that customer. This agreement must specify what research can be paid for and the research budget. In addition, the agreement must provide for:

a. reviewing and assessing the purchased research, and
b. periodic disclosure to customers.

62. Answer: C Chapter 6, Section 6.5

Firms need to prepare quarterly and annual prudential returns required by the Regulatory Authority.

63. Answer: C Chapter 5, Section 2.4

Authorised firms are required to make arrangements and procedures regarding personal account dealing. Systems and controls need to be in place to ensure that in the event of a relevant person entering into a personal account transaction, the transaction does not conflict with the firm's duties to their customers, and the firm is promptly notified of the transaction. In addition, the systems and controls must ensure that any relevant person who is not permitted to enter into personal account transactions are not able to:

- arrange for others to enter into the transaction, or
- communicate an opinion about the transaction knowing (or reasonably expected to know) the other person is likely to enter into the transaction, or to arrange for another person to do so.

This does not apply where a relevant person enters into a transaction in the proper course of their employment.

64. Answer: A Chapter 5, Section 3.2.3

If an authorised firm makes or approves an advertisement that includes or refers to the past performance of a regulated activity or specified product, it must ensure that the performance information is not the most prominent feature of the advertisement and that:

- The performance information covers at least the last five years or the entire period for which the regulated activity or specified product has been offered but never less than three consecutive years.
- The performance information is based on complete 12-month periods.
- The reference period, basis and the source of the performance information are clearly stated.
- The advertisement contains a prominent warning that the performance information refers to the past and that past performance is not a reliable indicator of future performance – the warning must appear near the information on past performance and may not be provided by way of a footnote.
- The firm must make and retain a detailed record of how the past performance information was calculated.

65. Answer: D Chapter 2, Section 4

A trust is created by an instrument in writing and its terms will prevail over the regulations except in a number of circumstances including where its purpose is not lawful or contrary to public policy.

66. Answer: D Chapter 4, Sections 2 and 3.1

Anti-money laundering regulations cover the acquisition, retention and use of criminal proceeds. The offence of abusive conduct covers investor behaviour and contains rules on insider information, the execution of transactions that gives rise to misleading impressions, dissemination of false and misleading information as well as the use of fictitious devices.

67. Answer: B Chapter 5, Section 4.3.2

The authorised firm must not hold itself out as acting independently unless it:

- is not party to any arrangements with particular product providers that prevent it from giving advice on packaged products from the whole market (or the whole of the relevant sector of the market)
- gives the advice on packaged products from a sufficiently large range of product providers to enable it to give the advice on the basis of a fair analysis of the market, and
- offers the retail customer the opportunity of paying a fee for giving the advice

68. Answer: B Chapter 3, Section 3.3

A whistleblower is a person, who in good faith, raises concerns about, or reports crimes, contraventions (including negligence, breach of contract, breach of law or requirements), miscarriages of justice, dangers to health and safety or the environment and the covering up of any of these by their employer. Whistleblowers shall not be dismissed or otherwise penalised directly or indirectly for such acts, including in respect of any prohibition against disclosure of non-public information.

69. Answer: D Chapter 5, Section 5.2

An authorised firm must, on a customer's request, disclose to the customer all commissions and other economic benefits accruing to the firm from any business transacted for the customer, as well as any payment that the intermediary receives for providing to, or securing for, the customer any additional insurance-related services.

70. Answer: C Chapter 5, Section 2.6.3

A referral needs to be made in a durable medium, promptly, and within five business days from the date they are satisfied of the other firm's involvement.

71. Answer: B Chapter 6, Section 3.1.2

An authorised firm must make an application to the Regulatory Authority to withdraw an approved individual from a controlled function at least ten business days before the individual ceases to carry out that controlled function.

72. Answer: A Chapter 6, Section 5.2.1

The base capital requirement for a QFC captive insurer depends on the type of firm and is determined as follows:

1. **Class 1 captive insurer** – QR540,000
2. **Class 2 captive insurer** – QR1.4 million unless the Regulatory Authority determines a different amount for the firm
3. **Class 3 captive insurer** – QR900,000
4. **Class 4 captive insurer** – QR3.6 million unless the Regulatory Authority determines a different amount for the firm.

73. Answer: C Chapter 5, Section 3.3

Before an authorised firm conducts any deposit-taking business it must give the customer the terms of business.

74. Answer: C Chapter 4, Section 2.1

Articles 84 and 85 set out the circumstances where a person would be judged as contravening a relevant requirement.

75. Answer: B Chapter 5, Section 6.2

The following persons (applicants) are eligible to apply to the independent adjudicator:

- Retail customers of an authorised firm:
- Business customers of an authorised firm with no more than 20 employees:
- Individuals who are, or were, a beneficiary under a group policy issued by an authorised firm:
- Individuals who are a surviving dependent of a deceased retail customer of an authorised firm, and their legal representatives:
- The widow or widower of a deceased retail customer of an authorised firm:
- Individuals who are entitled to benefit from an insurance contract issued to a retail customer of an authorised firm.

Syllabus Learning Map

Syllabus Unit/ Element		Chapter/ Section

Element 1	**QFC Law and Financial Services Regulations**	**Chapter 1**
1.1	**QFC Financial Services Regulations**	
	On completion, the candidate should:	
1.1.1	Know the objectives of the QFC Authority (Article 5 – Law No. 7 of 2005)	2.1
1.1.2	Know the regulatory objectives by which the Regulatory Authority exercises its functions and powers under the QFC Law (Article 12, 3, FSR)	2.2
1.1.3	Know what constitutes a regulated activity (Articles 22, 23, 24, 25 & Schedule 3, Part 2) • Background • Definition • Re retail customers • Activities by way of business	2.3
1.1.4	Know which activities do not constitute regulated activities (Schedule 3, Part 1 of the QFC Law)	2.3
1.1.5	Know the activities that are exempted from the Financial Services Regulations (FSR Schedule 3, Part 1)	2.4
1.1.6	Know which activities fall within the general categories of permitted activities (Schedule 3, Part 4)	1.1
1.1.7	Know the types of investment or other products that are specified products (FSR Schedule 3, Part 3)	2.5
1.2	**QFCRA Powers of Investigation (Financial Services Regulations)**	
	On completion, the candidate should:	
1.2.1	Know the QFCRA's powers with regard to investigations (Articles 48 to 57)	3
1.2.2	Know the QFCRA's powers with regard to discipline and enforcement (Articles 58 to 69)	3.2

Element 2	**Companies, Partnerships and Trusts (Qatar Financial Centre Regulations No. 2 of 2005 QFC Companies Regulations V4 – March 2015)**	**Chapter 2**
2.1	**Limited Liability Companies (Companies Regulations 2005)**	
	On completion, the candidate should:	
2.1.1	Understand the legal capacity of limited liability companies (Article 15)	1.1
2.1.2	Know the regulations relating to the following aspects of share issues: • Allotment of shares (Article 21) • Transfer of shares (Article 24) • Financial assistance (Article 33)	1.2

Syllabus Unit/ Element		Chapter/ Section
2.1.3	Know the regulations that apply to the directors and secretary in the following areas (Articles 52 (1–2), 56 (1–4) & 60 (1–2)) • Appointment of directors • Appointment of secretary • Directors' interests	1.3
2.1.4	Know the following requirements regarding company meetings (Articles 63 & 65 (1–3)) • Frequency of general meetings • Requisition of general meetings	1.4
2.2	**Protected Cell Companies (Companies Regulations 2005)**	
	On completion, the candidate should:	
2.2.1	Understand the structure of protected cell companies (PCCs) (Articles 93, 94 & 95 (1 to 5)) • Incorporation as a legal entity • Creation of cells • Cellular and non-cellular assets	2
2.2.2	Understand the position of a PCC's creditors (Articles 96 (1, 2 & 3), 97 & 103 (1, 2 & 3))	2.2
2.3	**Partnerships (Partnership Regulations 2007)**	
	On completion, the candidate should:	
2.3.1	Understand what constitutes a partnership and the different types (Articles 7 (1), 8, 9 & 21) • Carrying on a business • General and limited partnerships • Acts of the partners	3
2.3.2	Understand the difference between limited, unlimited and joint and several liability (Articles 24(1), 27(1), 37 (1–5), 38–41))	3.4
2.3.3	Understand the structure of a limited liability partnership (LLP) (Limited Liability Partnership Regulations 2005 Articles 6, 7 (1–4))	3.5
2.4	**Trusts and Trustees (Trust Regulations 2007)**	
	On completion, the candidate should:	
2.4.1	Understand the following general principles that apply to trusts: • Where the terms of a trust do not prevail (Article 7 (2)) • Creation (Articles 16A, 17 & 18) • Acceptance of trusteeship (Article 36 (1) (2)) • Governing law and jurisdiction (Articles 9 (1 & 5) & 15(1))	4

Element 3	**Other QFC Regulations**	**Chapter 3**
3.1	**Contract Regulations 2005**	
	On completion, the candidate should:	
3.1.1	Know the basic criteria that support the nature of a contract and its formation (Articles 6 to 21) • Nature of a contract (Articles 6 to 12) • Formation of a contract (Articles 13 to 21)	1

Syllabus Unit/ Element		Chapter/ Section
3.1.2	Know the regulations that apply to areas that may create uncertainty in a contract: • Initial impossibility (Article 32) • Mistake (Article 33) • Express and implied terms (Articles 52 & 53)	1.3
3.2	**Insolvency Regulations 2005 (V2 – December 2013)**	
	On completion, the candidate should:	
3.2.1	Know the basic details of an administration order: • Purpose (Article 7) • Administration order (Article 8) • Application by a secured creditor (Article 20)	2
3.2.2	Understand the following specific regulations in respect of a voluntary winding up: • General administrative actions (Article 58) • Declaration of solvency (Articles 63 & 64) • Conversion to a creditors' voluntary winding up (Articles 68 & 69)	2.3
3.3	**Employment Regulations (V5 – May 2016)**	
	On completion, the candidate should:	
3.3.1	Understand the regulations in respect of the following matters: • Minors (Article 10) • Discrimination (Article 15) • Whistleblowing (Article 16) • Termination of employment (Articles 23 & 24) • Retirement and pension (Article 25A) • Work related injuries (Article 49)	3

Element 4	**Industry Protection Rules and Regulations**	**Chapter 4**
4.1	**Data Protection Regulations 2005**	
	On completion, the candidate should:	
4.1.1	Understand the basic requirements for the processing of personal data (Articles 6 & 7)	2.1
4.1.2	Understand the concept of sensitive personal data and the regulations relating to its processing (Article 8 & 26 (definitions))	2.2
4.1.3	Know the circumstances under which personal data may be transferred to another jurisdiction and the level of protection that is required (Articles 9 & 10)	2.3
4.1.4	Know the requirements relating to the protection of information obtained from, or concerning, a data subject (Articles 11 to 16)	2.4
4.2	**Market Abuse and Contraventions**	
	On completion, the candidate should:	
4.2.1	Understand the regulations relating to the behaviour by a person, which may be construed as being abusive conduct in respect of an investment or a transaction in an investment (FSR Article 82)	3

Syllabus Unit/ Element		Chapter/ Section
4.2.2	Understand the regulations that would apply to a person who contravenes a relevant requirement (FSR Articles 84 & 85)	3.1
4.3	**Money Laundering (AML/CFTR)**	
	On completion, the candidate should:	
4.3.1	Know the Key AML/CFT Principles (Rules 1.2.1 to 1.2.6)	1
4.3.2	Know the definition of 'money laundering' and 'customer' (AML/CFT Law Article 1, AML/CFTR Rule 1.3.4)	1.1
4.3.3	Understand the general requirements to develop AML/CFT programmes and policies (Rules 2.1.1, 2.1.2, 2.1.3 & 2.1.4)	1.2
4.3.4	Know how the rules apply to: (Rules 2.1.5 to 2.1.7) • Officers • Employees • Agents • Branches • Associates • Outsourced functions and activities	1.3
4.3.5	Know the risk mitigation and assessment requirements of firms (Rules 3.1.1 & 3.1.2)	1.4
4.3.6	Know the duties and responsibilities of a firm in respect of the 'know your customer' requirements (Rules 4.1.1, 4.1.2, 4.1.3, 4.2.1 & 4.2.2)	1.5.1
4.3.7	Understand the requirements of the rules regarding customer due diligence (CDD) measures (Rules 4.3.1, 4.3.2, 4.3.3 & 4.3.4)	1.5.2
4.3.8	Know the requirements for ongoing, enhanced and reduced CDD (Rules 4.4.1 & 4.5.1)	1.5.3
4.3.9	Know the requirements of the rules regarding customer identification (Rules 4.6.1, 4.6.2, 4.6.6 & 4.6.7)	1.5.4
4.3.10	Know the reporting requirements of a firm, including: • Unusual transactions (Rule 5.1.1) • Internal reporting (Rules 5.1.2, 5.1.3 & 5.1.4) • External reporting (Rules 5.1.6 & 5.1.7) • Tipping off (Rules 5.2.1 to 5.2.3)	1.6.1
4.4	**Client Money (INMA Chapter 5)**	
	On completion, the candidate should:	
4.4.1	Understand the basic rules concerning a firm's dealings with its customers' money. (Rules 5.1.2–4, 5.2.1–4 & 5.4.1)	4
4.4.2	Understand the circumstances where money is not client money (Rules 5.3.1–7)	4.1
4.4.3	Understand the client money protection rules as they apply to client bank accounts (Rules 5.5.1–4)	4.2
4.4.4	Understand the terms under which client money is held by a firm (Rules 5.5.5–10, 5.5.13–14 & 5.5.17–19)	4.3
4.4.5	Understand the rules relating to the use of other entities (Rules 5.5.11–12 & 5.5.15–16)	4.4

Syllabus Unit/ Element		Chapter/ Section
4.4.6	Understand the situations in which the client money rules do not apply (Rules 5.6.1–3)	4.1
4.4.7	Understand the rules relating to the payment of funds out of clients' bank accounts (Rules 5.7.1–3)	4.3
4.4.8	Understand the duties of a firm regarding notifications to a customer about client money and compliance with instructions (Rules 5.8.1–3)	4.5
4.4.9	Understand the requirements for the calculation and reconciliation of a firm's client money resource and requirement (Rules 5.9.1-8)	4.6

Element 5	**Conduct of Business Rulebook (COND)**	
5.1	**Clients, Customers and Market Counterparties** On completion, the candidate should:	
5.1.1	Know who is a customer of an authorised firm (Rules 1.2.1–10) • retail customers • business customers • eligible counterparties • agents	1
5.1.2	Know the principles of fair treatment of customers (Rules 2.1.1 to 2.1.3)	1
5.1.3	Know the firm's obligations regarding customer classifications (Rules 3.3.1 to 3.3.6) • general obligations • opting up • determination of assets • knowledge, experience and understanding • systems and controls	1
5.2	**Authorised firms' obligations**	
5.2.1	Know the rules regarding the reliance on others and restriction of liability (Rules 3.4.1 to 3.4.3)	2.1
5.2.2	Know the rules regarding dealing with conflicts and material interests (Rules 3.5.1 to 3.5.5)	2.2
5.2.3	Know a firm's obligations relating to inducements and soft commissions (Rules 3.5.6 to 3.5.10) • contingent selling • inducements • soft commission agreements	2.3
5.2.4	Know the rules relating to personal account transactions (Rule 3.6.1)	2.5
5.2.5	Know the rules relating to the handling of errors (Rule 3.7.1)	2.6
5.2.6	Understand the processes that an authorised firm must have in place to deal with customer complaints (Rules 3.8.1 to 3.8.4)	2.7

Syllabus Unit/ Element		Chapter/ Section
5.2.7	Know the service standards to which an authorised firm must adhere when dealing with complaints from retail customers (Rules 3.8.5 to 3.8.8)	2.6
5.3	**Advertisements**	
	On completion, the candidate should:	
5.3.1	Know the general requirements and content of advertisements • meaning • compliance • Shariah compliant • content	3.1, 3.1.1, 3.1.2
5.3.2	Know regulatory requirements governing advising replacement products to retail customers (Rule 3.5.11)	3.3
5.3.3	Know the financial promotion rules that apply to customers • presentation (Rule 4.2.7) • comparisons (Rule 4.2.8) • past performance (Rule 4.2.9) • future performance forecasts (Rule 4.2.10) • personal contact (Rules 4.3.1 to 4.3.3)	3.3
5.3.4	Know the content and purpose of the initial disclosure document (Rule 4.4.1 to 4.4.3)	3.3
5.4	**Investment Management Business and Investment Mediation Business (Chapter 5)**	
	On completion, the candidate should:	
5.4.1	Know an authorised firm's obligations regarding charges and benefits (Rules 5.1.3 to 5.1.5)	4.1
5.4.2	Know the requirements for firms carrying out investment management business • discretionary investment management agreements (Rule 5.2.2) • services for retail and opted-up customers (Rule 5.2.3) • know your customer (Rule 5.2.4)	4.2
5.4.3	Know the rules relating to investment intermediaries • investment advice (Rule 5.3.2) • know your customer (Rule 5.3.3) • independence (Rule 5.3.4)	4.3
5.4.4	Know the rules relating to packaged investment products documentation (Rules 5.4.1 to 5.4.3)	4.4
5.4.5	Know the general rules relating to packaged investment products • not execution only (Rule 5.5.1) • documents (Rule (5.5.2) • periodic statements (Rule 5.5.3) • changes in terms and conditions (Rule 5.5.4)	4.5

Syllabus Unit/ Element		Chapter/ Section
5.5	**Insurance Business and Insurance Mediation Business (Chapter 6)**	
	On completion, the candidate should:	
5.5.1	Know the general requirements for insurers • Policies and procedures (Rule 6.2.2) • Insurance intermediaries (Rule 6.2.3)	5.1
5.5.2	Know the general requirements for insurance intermediaries • Initial disclosure documents (Rule 6.3.1) • Disclosure by tied agents (Rule 6.3.2) • When documents not needed (Rule 6.3.3) • Additional disclosures (Rule 6.3.4) • Insurers outside Qatar (Rule 6.3.5) • When not an insurance intermediary (Rule 6.3.6) • Business practices (Rule 6.3.7)	5.2
5.5.3	Know the rules relating to non-investment insurance – retail • General requirements for retail business (Rule 6.4.1) • Key information (Rule 6.4.2) • Form and content of key information document (Rule 6.4.3) • Contracts (Rule 6.5.1) • Renewals (Rule 6.5.2) • Mid-term changes (Rule 6.5.3) • Claims handling (Rule 6.5.4) • Fees and changes (Rule 6.5.5) • Joint policyholders (Rule 6.5.6) • Group policies (Rule 6.5.7) • Execution only business (Rule 6.5.8)	5.3
5.5.4	Know the rules relating to cancelling insurance contracts • Cancellation terms (Rule 6.6.1) • Life insurance contracts and retail customers (Rules 6.6.2 & 6.6.3) • Exercising rights to cancel (Rule 6.6.4) • Consequences of cancellations (Rule 6.6.5)	5.3
5.5.5	Know the rules relating to claims handling • General requirements (Rule 6.7.1) • Long-term care contracts (Rule 6.7.2) • Payment of claims (Rule 6.7.3)	5.4
5.5.6	Know the rules relating to recordkeeping (Rules 8.1.2 to 8.1.4)	5.5
5.6	**Customer Dispute Resolution Scheme Rules 2019 (CDRS)**	
	On completion, the candidate should:	
5.6.1	Know the functions of the independent adjudicator (Parts 2 – 4) • The Independent Adjudicator (Part 2) • Application for Independent Adjudicator's review of decisions (Part 3) • Independent Adjudicator's processes (Part 4)	6

Syllabus Unit/ Element		Chapter/ Section
Element 6	**Other QFCRA Rulebooks**	**Chapter 7**
6.1	**Collective Investment Schemes Rules 2010 (COLL) and Private Placement Schemes Rules (PRIV)**	
	On completion, the candidate should:	
6.1.1	Understand the basic concepts and key terms that apply to all collective investment schemes (COLL Parts 1.1/2 and PRIV Parts 1.1/2 Division 1.2.A) (candidates are not expected to know the requirements of COLL Schedule 1) • The nature of collective investment schemes and private placement schemes • Participants, scheme property, units and unitholders • QFC scheme or not • Operator and independent entity • Open- and closed-ended schemes • Umbrella schemes • Qualified investors and retail customers	1.1
6.1.2	Know the basic concepts and key terms that apply to QFC and non-QFC schemes (COLL Parts 1.3/4 and PRIV Part 1.2 Division 1.2.B) • Types of QFC scheme • Legal forms for QFC schemes • Particular types of QFC schemes	1.2
6.1.3	Know the constitutional requirements relating to QFC schemes' constitutional documents (COLL Part 3.1 Rules 3.1.1 to 3.1.3 and PRIV Part 3.1 Rules 3.1.1 to 3.1.3) (candidates are not expected to know the requirements of COLL Schedule 2 or PRIV Schedule 1)	1.3
6.1.4	Know the prospectus requirements relating to QFC schemes (COLL Part 5.2 Rules 5.2.1 to 5.2.4 and PRIV Part 5.2 Rules 5.2.1 to 5.2.4)	1.4
6.2	**Governance and Controlled Functions Rules**	
	On completion, the candidate should:	
6.2.1	Know the governance principles (Rules 2.1.1 to 2.1.4)	2.1
6.2.2	Know a firm's governing body's obligations (Rules 2.2.1 to 2.2.10)	2.2
6.2.3	Know the ten controlled functions (Rules 3.1.1 to 3.1.12)	2.3
6.2.4	Know the rules relating to the outsourcing of functions (Rules 5.1.2 to 5.1.3)	2.4
6.2.5	Know the rules relating to material outsourcing arrangements (Rules 5.2.1 to 5.2.3 & Glossary)	2.4
6.3	**General Rulebook (GENE)**	
	On completion, the candidate should:	
6.3.1	Know the fitness and propriety criteria that apply to a person who wishes to become an authorised firm (Rules under Chapter 2)	3

Syllabus Unit/ Element		Chapter/ Section
6.3.2	Know the rules that relate to an authorised firm in the following areas: • Disclosure of regulatory status (Rules 3.1.1 & 3.1.2) • Change in core details (Rules 4.1.1 & 4.1.2) • Maintenance of records (Rules 6.2.1 to 6.2.6)	3.1
6.3.3	Know which events should be reported by an authorised firm to the Regulatory Authority: • Significant events (Rule 4.1.3) • Fraud and errors (Rule 4.1.4) • Actions by other regulators (Rule 4.1.5) • Action against the firm (Rule 4.1.6) • Winding up, bankruptcy and insolvency (Rule 4.1.7)	3.2
6.3.4	Know the general requirements relating to protected reporting (Rules 4A.1.1 – 3)	3.3
6.3.5	6.3.5 know the rules relating to protected reporting policies (Rules 4A.2.1 – 3)	3.3
6.3.6	Know the general provisions relating to controllers and close links (Chapter 8 Part 8.1)	3.4
6.3.7	Know the general provisions relating to controllers and close links (Chapter 8 Part 8.1)	3.4
6.3.8	Know the rules that apply when an authorised firm applies to change control of its branches (Part 8.3)	3.4
6.3.9	Know the requirements to give notice about controllers (Part 8.4)	3.4
6.4	**Individuals (Assessment, Training & Competency) Rulebook (INDI)**	3.4
	On completion, the candidate should:	
6.4.1	Know the principles of conduct for approved individuals (Rules 2.1.1 to 2.1.6)	4.1
6.4.2	Know the requirements of the rules relating to training and competence programmes • Maintenance of programmes (Rules 5.2.1–3) • Assessment of individuals' competence and fitness (Rules 3.1.1–4)	4.2
6.4.3	Know a firm's obligations regarding the fitness of an individual in relation perform a controlled function (Rule 3.1.5)	4.3
6.4.4	Know an authorised firm's responsibilities regarding training and other ongoing obligations relating to controlled functions • Principles for training and competency (Rules 5.1.1–5) • Review competencies (Rule 5.3.1) • Review training and development (Rule 5.3.2) • Continuing professional development (Rule 5.3.3)	4.3
6.5	**Insurance Business Rulebook (CAPI)**	
	On completion, the candidate should:	
6.5.1	Know the terms and basic concepts covered by the Captive Insurance Business Rulebook (Rule 1.2.1 to 1.2.8)	5

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Syllabus Unit/ Element		Chapter/ Section
6.5.2	Understand the prudential requirements for firms authorised to conduct Captive Insurance business • General requirement (Rule 2.1.1–2) • Minimum capital requirement (Rule 2.2.1) • Base capital requirement (Rule 2.2.2) • Premium risk component (Rule 2.2.3) • Outstanding claims risk component (Rules 2.2.4 & 2.2.5)	5
6.5.3	Understand the additional requirements for firms authorised to conduct long term insurance business (Chapter 8) • Establishing the fund (Rules 8.2.1 to 8.2.3) • Limitation on the use of assets (8.4.1 to 8.4.6)	5
6.6	**Insurance Mediation Business Rules (IMEB)**	
	On completion the candidate should:	
6.6.1	Understand key terms, basic concepts and requirements relating to the IMEB rules • Insurance mediation (Rules 1.2.1, 1.2.2(1)(5)) • Captive Insurance management (Rules 1.2.4 to 1.2.6) • Client money (Rule 1.2.9) • Prudential requirements (Rules 2.1.1 to 2.1.5) • Prudential returns (Rules 2.4.1 to 2.4.3)	6
6.7	**Banking Business Prudential Rules 2014 (BANK)**	
	On completion the candidate should:	
6.7.1	Know the prudential reporting requirements for a banking business firm (Rules 2.1.1(2), 2.1.3, 2.1.4(1)(2), 2.1.5–6 & 2.1.8)	7.1
6.7.2	Know a banking business firm's capital adequacy requirements (Rules 3.1.1(2)(3), 3.1.2, 3.1.4, 3.1.5(1)(2) & 3.1.6(1)(2)(5)	7.2
6.7.3	Know the requirements for a banking business firm's credit risk management policy including mitigation (Rules 4.1.2–3, 4.2.1–4 & 4.5.2–3)	7.3
6.7.4	Know the requirements for a banking business firm's market risk management policy including mitigation Rules 6.1.1(2)(3), 6.1.2–4, 6.1.6 & 6.1.6–10)	7.4
6.7.5	Know the requirements for a banking business firm's policy regarding interest rate risk on the banking book (Rules 8.1.2–3, 8.1.5–8, 8.1.9(1)(2) & 8.1.10–11)	7.5
6.7.6	Know the requirements for a banking business firm to establish liquidity risk policies and maintain an adequate level of liquidity (Rules 9.1.1(3)(4), 9.1.2-4, 9.1.6-8 & 9.1.10)	7.6

Syllabus Unit/ Element		Chapter/ Section
6.7.7	Know the additional requirements on liquidity risks from Islamic financial contracts (Islamic Banking Business Prudential Rules 2015 (IBANK) • Murabahah • Commodity murabahah • Salem • Ijarah • Mudarabah and musharakah • PSIAs • Qard	7.7
6.8	**Investment Management and Advisory Rules 2014 (INMA)**	
	On completion the candidate should:	
6.8.1	Understand the minimum capital and liquid assets requirements of a firm (Rules 3.3.3–4, 3.3.5(1)(2), 3.3.6–7 & 3.3.9)	8
6.8.2	Understand the rules relating to the risk management strategy of an INMA firm (Rules 4.2.1–3, 4.3.1, 4.3.2(1)(2)(3), 4.3.3(1)(2)(3) & 4.3.5)	8

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Element Number	Element	Questions
1	QFC Law and Financial Services Regulations	6
2	Companies, Partnerships and Trusts	6
3	Other QFC Regulations	3
4	Industry Protection Rules and Regulations	16
5	Conduct of Business Rulebook	16
6	Other QFCRA Rulebooks	25
Total		**75**

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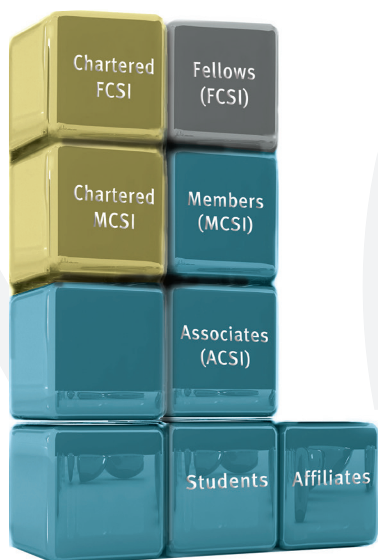

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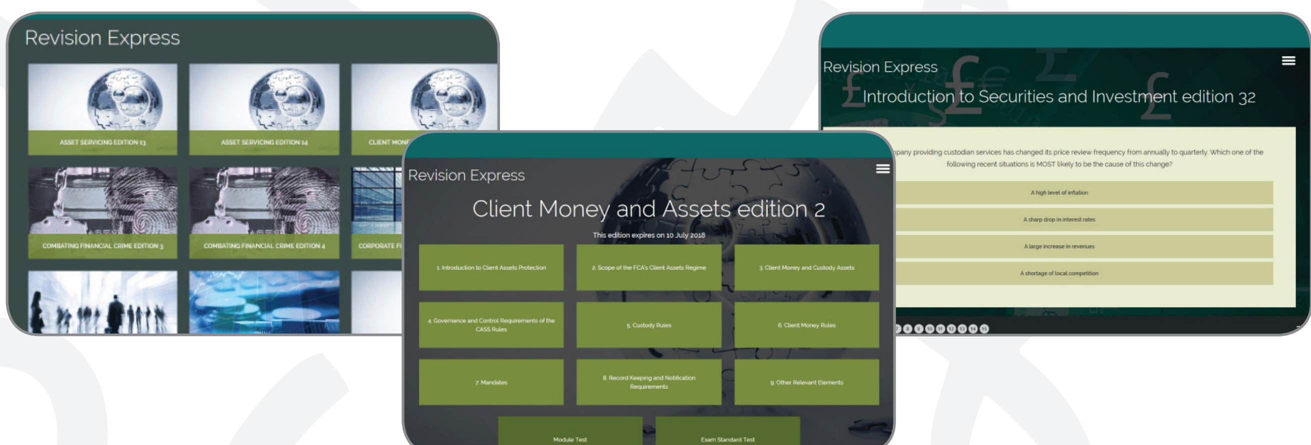

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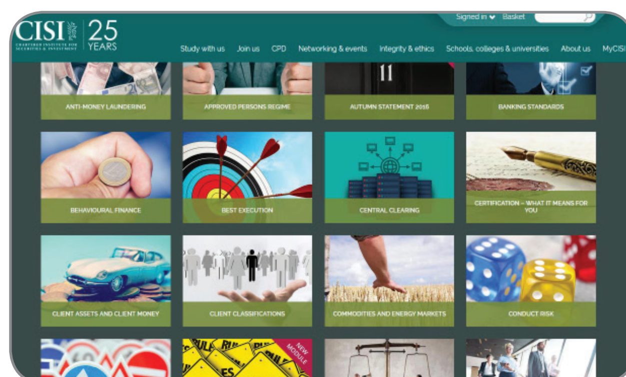

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