Updates to DFSA's Client Assets Regime

Frequently Asked Questions

June 2025

Introduction

This Frequently Asked Questions (FAQ) document is not intended to be a complete guide to the DFSA's Client Assets regime and is not a substitute for reading the applicable rules, including, but not limited to, the Conduct of Business Module (COB). Reference should also be made to Consultation Paper No 160 (CP160) and the Feedback Statement published on 14 March 2025, alongside the related revised rules.

The questions and answers in this FAQ are based on the revised rules that come into effect on **1 January 2026**. Until then, Authorised Firms should continue to comply with the existing rules.

This FAQ will be reviewed and updated periodically. Authorised Firms are encouraged to consult the latest version regularly.

Defined Terms

Defined terms from the Glossary Module (GLO) of the DFSA Rulebook are capitalised in this FAQ, unless the context requires otherwise.

Updates to the Client Assets Regime

1. When do the new rules come into effect?

The new rules will come into effect on 1 January 2026.

2. What are the key changes?

Please refer to CP160 and the related Feedback Statement for background on what has been updated.
Key changes include:

- clarifying the requirements applicable to Authorised Firms that control (but do not hold) Client Assets;
- clarifying that Investments and Crypto Tokens constituting Fund Property do not fall within the Client Assets regime;
- introducing a requirement for Authorised Firms to compile and maintain a Client Asset Crisis Preparedness Pack (the Pack) to facilitate the prompt identification and return of Client Assets in a crisis; and
- clarifying the aspects of the Client Assets regime that Registered Auditors should assess in preparing Client Assets Auditor's Reports.

3. How should Authorised Firms and Registered Auditors prepare for implementation?

Authorised Firms and Registered Auditors are encouraged to familiarise themselves with the changes and new rules and consider conducting a gap analysis of their existing Client Assets arrangements, systems, and controls. They should put in place an appropriate implementation plan to ensure readiness by 1 January 2026.

Registered Auditors should also ensure that their audit procedures and internal systems and controls are updated to take account of the new rules.

The DFSA intends to host outreach sessions to support Authorised Firms and Registered Auditors with understanding the key changes to the Client Assets regime.

4. How will implementation of the new rules affect Authorised Firms with non-calendar financial years?

Authorised Firms whose financial years straddle the 1 January 2026 effective date may be subject to dual reporting. Registered Auditors, working in conjunction with Authorised Firms, will need to establish the relevant periods covered by the existing rules and the new rules, and will be expected to comment on the Firm's compliance with both sets of rules where the audit period spans across both.

This situation is expected to affect a small number of Firms, as most operate on a calendar-year basis.

Controlling Client Assets

5. Do the same rules apply to Authorised Firms that control Client Assets as those that hold them?

No. Only specific rules from COB App 5 (Client Money Provisions) and COB App 6 (Safe Custody Provisions) are likely to be relevant for Authorised Firms that control Client Assets (COB 6.11.4(d) Guidance Note 4), such as sections A5.1, A5.2, A5.12, A5.14, A6.1–A6.3, and A6.10.

However, other relevant requirements in the DFSA Rulebook still apply, such as GEN 2.2.10A – requiring an endorsement to hold or control Client Assets – and GEN 8.6 – requiring an Auditor's Report relating to Client Assets.

It is recommended that Authorised Firms identify which rules will apply and ensure that their systems and controls are adjusted where appropriate.

Client Assets Auditor's Reports

6. Do Authorised Firms still need to submit Client Assets Auditor's Reports to the DFSA before the new rules come into force?

Yes. Until 1 January 2026, Authorised Firms should continue to submit Client Money Auditor's Reports (for Client Money) and Safe Custody Auditor's Reports (for both Client Investments and Client Crypto Tokens, as applicable) in accordance with GEN 8.6.1(c) and (e), unless a relevant exemption applies (e.g. for Fund Property as per COB 6.12.1(e), or for Clients that are Market Counterparties as per COB 6.12.2(3)).

7. From 1 January 2026, which Auditor's Reports must be submitted to the DFSA?

Authorised Firms should ensure that their Auditors produce a Client Money Auditor's Report, Safe Custody Investment Auditor's Report, and a Safe Custody Crypto Token Auditor's Report, as applicable. All Reports must be submitted to the DFSA within four months of the Authorised Firm's financial year-end (GEN 8.6.2(a)).

8. What is the scope of the Report on the Auditor's findings that needs to be submitted to the DFSA?

The Report should cover the remedial steps (taken or planned) to address **all** findings of non-compliance identified by the Auditors (COB A5.12, A6.10, and associated Guidance Notes).

9. When should the Report on the Auditor's findings submitted to the DFSA?

Within 30 days of submitting the Client Assets Auditor's Reports. The DFSA does not expect full remediation within this timeframe.

While we expect that any compliance breaches are readily identified, reported, and promptly remediated, we recognise that this may depend on the nature, size, and complexity of the issue (COB A5.12, A6.10, and associated Guidance Notes).

Authorised Firms should notify the DFSA within one day of discovering non-compliance with the Client Assets Rules (see COB A5.14 and A6.11).

Client Money Written Acknowledgement

10. When should the written acknowledgement from a Third-Party Agent (TPA) be obtained by the Authorised Firm?

Before any Client Money is passed to the TPA (COB A5.7.2).

Client Assets Reconciliation

11. How often are reconciliations for Client Investments and Client Money required?

At least monthly for both Client Investments and Client Money (see COB A5.11.1(1) and A6.9.1(a), and associated Guidance Notes). More frequent reconciliations may be required depending on certain factors, such as the frequency, number, and value of transactions, or risks that the Client Money is exposed to. For more information, please refer to the associated Guidance Notes.

Client Reporting

12. Are there any changes to the reporting frequency on Client Investments to Professional Clients?

No. The frequency remains as set out in COB A6.8.1(1).

TPA Suitability Assessment

13. Are Authorised Firms required to maintain records of the TPA assessments?

Yes. Records must demonstrate consideration of the matters listed in COB A5.6.1(2) and A6.5.3.

Authorised Firms should document and be prepared to explain to the DFSA, if required, why any matter was not considered or deemed irrelevant in influencing a different decision regarding the suitability of the TPA.

14. What should be considered in assessing a TPA's creditworthiness?

As part of the TPA assessment, Authorised Firms should consider financial information, such as annual reports and accounts, rating agency reports or credit spreads, and any other relevant public information on the TPA's financial strengths and weaknesses (see COB A5.6.2 Guidance Note 1).

15. What aspects in the diversification of Client Money across TPAs should be considered as part of the suitability assessment?

While diversification is not mandated under the DFSA Rules, Authorised Firms should consider potential risks in the absence of diversification. To minimise concentration risk, Authorised Firms should consider:

- whether it would be appropriate to deposit Client Money with different TPAs;
- whether it would be appropriate to limit the amount of Client Money held with a TPA that is a member of the same Group; and
- whether the risks arising from their business model create a need for diversification (see COB A5.6.2 Guidance Note 2).

This is not an exhaustive list, and there may be other factors based on the arrangements (or proposed arrangements) that the Authorised Firms should consider. Where diversification is not possible or feasible, Authorised Firms should consider whether any other mitigation measures are necessary.

Client Disclosures

16. What must be disclosed about the insolvency regime to the Clients?

Authorised Firms must disclose any **relevant aspects** of the insolvency regime in the TPA's jurisdiction that would be relevant to the Client's understanding of how their assets held with the TPA would be treated in the event of the TPA's insolvency.

In the case of Client Money, this disclosure should also include information on the existence and scope of depositor guarantee schemes or depositor preferences in the TPA's jurisdiction (COB A6.7.1(1)(b)). This disclosure is also required for Authorised Firms that Arrange Custody with a non-DIFC custodian (COB A6.7.1(1)(b)).

Client Assets Crisis Preparedness Pack

17. What is the purpose of the Pack?

The Pack is designed to ensure that an Authorised Firm maintains and is able to retrieve, in crisis situations (e.g. insolvency, winding up, or other Distribution Events defined in the DFSA Rules), information that would assist relevant parties – such as insolvency practitioners, accountants, lawyers, and regulators – with the swift identification and return of Client Assets.

18. Are all Authorised Firms required to compile and maintain the Pack?

No. Only those that Provide Custody or **hold** Client Assets in any of the circumstances specified in COB 6.11.4(a)–(c) are required to establish and maintain the Pack.

Authorised Firms that only **control** Client Assets under COB 6.11.4(d) are exempt.

19. When and how often should the Pack be updated?

The Pack needs to be kept up to date on an ongoing basis (COB 6.14.3(1)).
"If any change of circumstances has the effect of making the content of the Client Assets Pack inaccurate or out of date", Authorised Firms have a maximum of five business days to update the Pack after that change occurs (COB 6.14.3(2)).

20. Can the Pack be integrated into existing business continuity and disaster recovery plans?

Yes – provided that Authorised Firms already possess the information required to be included in the Pack and that **all** the required Client Assets-related information listed in the Rules is contained in their existing business continuity and disaster recovery plans, this will suffice to satisfy this obligation.

Investment Management of Funds

21. Are Authorised Firms that only Manage Assets of a Fund[1] (i.e. conducting investment management), under a delegation arrangement, required to have the Client Assets endorsement?

No. They are not subject to the Client Assets Rules, as these assets qualify as Fund Property.

However, if an Authorised Firm that Manages Assets conducts dual activities, such as: (i) investment management of a Fund under a delegation arrangement; and (ii) pure wealth/asset management, it should obtain the Client Asset endorsement for the second, non-Fund related, part of its business to which the Client Assets Rules apply.

22. Do the Client Assets Rules extend to Fund Property of a Foreign Fund managed by an Authorised Firm under a delegation arrangement?

No. The Fund Property of the Foreign Fund will not be subject to the Client Assets Rules or the Fund Property protections in the Collective Investment Law and Collective Investment Rules. Instead, the legal protections in the jurisdiction of the fund or the fund manager (as the case may be) are expected to apply.

23. Do the Client Assets Rules apply where an Authorised Firm Manages Assets of a Fund under a sub-delegation from another investment manager?

No. The same approach as adopted in the reply to Question 21 applies, regardless of how many layers of delegation there are.

24. What is the process for Authorised Firms that are Managing Assets of a Fund under a delegation arrangement and are eligible to remove the Client Assets endorsement from their licence?

Submit a request via the DFSA ePortal – select option '7. Others – Client Assets Regime Implementation' and request the removal of the endorsement from your licence.

[1] GEN 2.10 Guidance Note 1: "Person does not become a Fund Manager of a Fund merely by being appointed by a Fund Manager of a Fund to provide the Financial Service of Managing Assets to the Fund. This is because the Fund Manager remains legally accountable to the Unitholders of the Fund for the proper management of the Fund in accordance with its Constitution and Prospectus."