

CONSULTATION PAPER CP 172



Enhancements to the Islamic Finance Rules

4 May 2026

PREFACE

Why are we issuing this Consultation Paper?

1. This Consultation Paper seeks public comments on proposals related to the requirement to have an endorsement to Conduct Islamic Financial Business, specific disclosure requirements for Takaful and minor, consequential, changes to the Islamic Finance Rules.

Who should read this Consultation Paper?

2. The proposals in this Consultation Paper should be of interest to Authorised Firm and Authorised Market Institutions and their Employees, applicants, professional advisers, and other industry participants.

Terminology

3. In this Consultation Paper, defined terms have the initial letter of a word, or of each word in a phrase, capitalised and are defined in the Glossary module ([GLO](#)). Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning. Some commonly used terms in this paper are noted below.

Term	Meaning
Conducting Islamic Financial Business	Means carrying on one or more Financial Services in accordance with Shari'a.
Islamic Financial Institution	An Authorised Person which has, on its Licence, an endorsement authorising it to conduct its entire financial business in accordance with Shari'a.
Islamic Window	The part of an Authorised Person, other than an Islamic Financial Institution, which conducts Islamic Financial Business.

What are the next steps?

4. Please provide your comments by accessing this [online response form](#) by **19 June 2026**. You will need to identify the organisation you represent when providing your comments. The DFSA reserves the right to publish, including on its website, any comments you provide, unless you expressly request otherwise at the time of making comments.
5. Following the public consultation, we will proceed to make changes to the DFSA Rulebook, having considered and reflected (where appropriate) the points raised in the consultation. You should not act on the proposals until the relevant changes are made to the DFSA Rulebook. We will issue a notice on our website when this happens.

Structure of this Consultation Paper

6. This Consultation Paper is structured as follows:
 - (a) Background;
 - (b) Proposals related to the requirement to have an endorsement to Conduct Islamic Financial Business and disclosures relating to Takaful;
 - (c) Appendix 1: Draft amendments to the Islamic Finance Rules (IFR) module;
 - (d) Appendix 2: Draft amendments to the Conduct of Business (COB) module; and
 - (e) Appendix 3: Draft amendments to the Glossary (GLO) module.

Background

Islamic Financial Business

7. The Law Regulating Islamic Financial Business 2004 (“IFB Law”) was introduced to regulate Islamic Financial Business activities undertaken in or from the DIFC. Article 9(1) of the IFB Law states that an Authorised Firm or Authorised Market Institution (collectively defined as an Authorised Person) shall not hold itself out as Conducting Islamic Financial Business either as: (a) an Islamic Financial Institution (IFI); or (b) by operating an Islamic Window unless they have obtained an Islamic endorsement.
8. Article 9(2) of the IFB Law enables the DFSA to make rules prescribing circumstances in which an Authorised Person will or will not be taken to hold itself out as Conducting Islamic Financial Business.
9. The IFB Law also sets out the process to apply for the endorsement.¹ This includes prescribing requirements an applicant must meet before an endorsement can be granted by the DFSA. Further, Article 13(1) of the IFB Law requires an Authorised Person which has such an endorsement to appoint a Shari’a Supervisory Board (SSB).
10. The IFR module supplements the IFB Law and includes requirements related to, for example, the SSB and Shari’a systems and controls. The IFR module also reflects the DFSA’s approach to regulating Islamic Financial Business as a “Shari’a systems regulator,” not a “Shari’a regulator.” This means the DFSA does not make a determination on the Shari’a aspects of a financial product or service, rather it requires that Authorised Persons set up systems and controls to support their Islamic Financial Business and associated risks in relation to it.
11. The DFSA requires any Authorised Person which holds itself out as conducting Islamic financial business to put systems in place to ensure that the business is conducted in accordance with Shari’a. This includes the appointment of an SSB, having systems in place to disseminate the SSB’s rulings, conducting regular

¹ Article 11 of the IFB Law

Shari'a reviews and internal audits. These system requirements provide the DFSA and Authorised Persons with clear and enforceable measures against which to assess their performance in conducting their Islamic Financial Business.

12. The DFSA's regime for Islamic finance is integrated with that for conventional finance but with explicit recognition of the specific risks of Islamic finance. Thus, the requirements in the IFR module are applied in addition to the rules in other parts of the Rulebook.

Sector development

13. The Islamic finance market in the U.A.E is projected to grow over the coming years. In 2024, the U.A.E. was ranked fourth globally in Islamic financial markets by assets, according to the [Islamic Finance Development Indicator](#) (IFDI). The IFDI also placed U.A.E. as the third most developed Islamic finance market based on financial performance and supporting ecosystem metrics.
14. The DIFC remains a key contributor to the Islamic finance sector and is currently one of the largest global venues for the issuance of United States Dollar (USD) Sukuk specifically in relation to Environmental, Social and Governance (ESG) Sukuks.
15. The development of this sector in the DIFC is aligned with the aspirations to strengthen the U.A.E.'s position as a global hub for international Islamic finance and to achieve the targets set in the [UAE Strategy for Islamic Finance and Halal Industry](#).

Proposals related to the requirement to have an endorsement to conduct Islamic Financial Business

Circumstances in which an Authorised Person will be taken to hold itself out as Conducting Islamic Financial Business

16. The DFSA has seen an increased interest from firms wanting to provide Islamic products and services. With this, we have received more queries to understand the Islamic endorsement, including how and when it is required.
17. We wish to ensure there is a consistent application and understanding of when the Islamic endorsement is required. To achieve this, we are proposing to set out further in the IFR module the circumstances in which an Authorised Person will be taken to hold itself out as Conducting Islamic Financial Business. These circumstances are where:
 - (a) an Authorised Person holds itself out as conducting all or part of its business operations in accordance with Shari'a;
 - (b) an Authorised Person provides a Financial Service in relation to a financial product that it holds out as being Islamic or Shari'a compliant; and
 - (c) a Fund Manager manages a Fund that it holds out as being Islamic or Shari'a compliant.

18. We also propose to add guidance to provide examples of where an Authorised Person would be considered to be holding itself out as Conducting Islamic Financial Business. Such examples are proposed to include, but are not limited to, instances where an Authorised Person:
- (a) in their advertising or marketing communications states that its operations or Financial Services, or parts thereof, are conducted in accordance with Shari'a, for example, by describing such services as:
 - i. Shari'a compliant, Islamic or Halal; or
 - ii. being conducted in accordance with directions given by its SSB or in accordance with its Shari'a governance, systems and controls arrangements;
 - (b) makes representations that a financial product or a Fund it manages is Islamic or complies with Shari'a; or
 - (c) offers advice, guidance or opinions on whether a Financial Service, a financial product or a Fund it manages is Islamic or complies with Shari'a.
19. Lastly, we propose to clarify in guidance that where an Authorised Person provides access to, or distributes, an Islamic financial product, such as a Sukuk, or Takaful, without holding that product out to be Islamic or Shari'a compliant, no endorsement would be required. For example, this could be where a firm might be dealing (execution only) in Islamic products or providing access to a large range of products of which some may be Islamic, but no advice is given, or representations are made in relation to the products Shari'a governance and oversight.
20. In providing access to, or distributing such products, an Authorised Person should consider its existing obligations to Clients, including but not limited to:
- (a) GEN rule 3.5.1(1), which requires a person to take reasonable care to ensure that any Financial Promotion it makes in or from the DIFC is clear, fair and not misleading. This means that an Authorised Person would, for example, need to conduct appropriate product due diligence on the Islamic financial products and be satisfied that the financial product and its marketing material are clear, fair and not misleading; and
 - (b) COB rule 3.4.2, which requires an Authorised Firm to carry out a suitability assessment before recommending to a Client a financial product or a Financial Service.

Please see draft amendments to IFR rule 1.1.1, section 1.2, chapter 2, rules 3.1.1, 3.3.1, 4.1.1 and 4.2.1 in Appendix 1 and draft amendments to GLO in Appendix 3.

Question 1:

Do you have any comments on the proposal to clarify the circumstances in which an Authorised Person is taken to be Conducting Islamic Financial Business and therefore requires an Islamic endorsement?

Requirements relating to Takaful

21. Chapter 8 of the IFR module applies to a Person who carries on or holds itself out as carrying on Insurance Business or Insurance Intermediation and requires that Person to make specific disclosures when conducting Takaful insurance with a Retail Client. The information required is in addition to the general disclosure requirements for insurance in COB section 7.7.
22. The disclosures required by IFR chapter 8 concern the nature of the contracts, the method of calculation of any fees etc., the basis on which any surpluses will be shared and any circumstances in which additional contributions may be required. We consider it important that these product features are shared with prospective Clients, regardless of whether the Authorised Person holds that product out to be Islamic or Shari'a compliant. To achieve this, we propose to move the requirement to COB section 7.7.
23. Lastly, we propose to define the term "Takaful" in the GLO module as a Contract of Insurance:
 - (a) under which parties agree to support one another jointly for the losses arising from specified risks from a fund to which all parties commit to donate for that purpose; and
 - (b) which has been drawn up to allow parties to comply with Shari'a.

Please see draft amendments IFR chapter 8 in Appendix 1, draft amendments to COB rule 7.7.4 in Appendix 2 and draft amendments to GLO in Appendix 3.

Question 2:

Do you have any comments on the proposals to:

- i. **require all Takaful sales to have similar disclosure by moving requirements on Takaful from IFR to COB?; and**
- ii. **provide a definition of "Takaful"?**