

Guidelines for the Risk Management Policy

The purpose of these Guidelines is to assist firms intending to carry on Regulated or Market Activities in the AIFC. The Guidance should be read in conjunction with AIFC Rules and Regulations.

One of the most important parts of the authorisation process is preparing a business plan and developing internal policies and procedures. This includes considering business specific risks to which an applicant firm might be exposed and elaborating ways of their management.

We consider risk to be the combination of impact (the potential harm that could be caused) and probability (the likelihood of the issue or event occurring). Identification, assessment, mitigation and monitoring the progress of internal and external risks constitute risk management, which is of great importance for firms, as conducting Regulated and Market Activities imply high risks for the business and its clients. The goal of risk management is to make sure that a firm only takes the risks that will contribute to achieving its primary objectives while keeping all other risks under control.

At the authorisation stage, an applicant firm should submit a draft Risk Management Policy (RMP) developed in compliance with requirements captured within the AIFC Rules and Regulations, as part of the application package.

According to Rule 1.1.4 (b) of AIFC General Rules, an applicant should demonstrate the availability of adequate and appropriate non-financial resources to identify, monitor, measure and take action to remove or reduce risks as to its safety and soundness. The firm must establish and maintain risk systems and controls that ensure that its affairs are managed effectively and responsibly by its senior management. An effective RMP serves as a way to demonstrate a robust internal control system and governance structure.

It must be noted that the nature and extent of a RMP will depend on a variety of factors, such as the nature, scale and complexity of the business, the volume and size of the transactions, and different types of risks associated with each area of business operations. Consequently, there is no “one-size-fits-all” approach in the way firms should establish and maintain systems and controls. Therefore, these Guidelines are for information purpose only and do not constitute an exhaustive list of requirements that might be applicable to the firm’s business operations and should not be regarded as any type of advice.

A RMP should be developed in compliance with relevant requirements stipulated in AIFC Financial Services Framework Regulations, AIFC General Rules, AIFC Conduct of Business Rules and AIFC Prudential Rules. Firms should also take into account other AIFC Rules and Regulations depending on the proposed business of an applicant firm.

A RMP should be clearly structured and cover the following points as a minimum:

- clear purpose, scope and application of the proposed RMP at the beginning of the document,
- main guiding principles for the risk framework of the firm,
- understanding of the firm's risk appetite and its risk tolerance,
- management of operational, capital, market, liquidity, insurance, legal and fraud risks,
- unique internal risks and regulatory issues that could arise due to the Regulated or Market Activities conducted by the firm,
- systems, policies and procedures in place to identify, assess, mitigate, and monitor the internal risks and regulatory issues identified by the firm, e.g. risk dashboard, risk owners and risk register,
- nature, scope and organizational structure of the firm's risk management functions, e.g. risk committee, board of directors,
- mechanisms for interaction of risk management with compliance and internal audit with a view to achieve a holistic view of controls around operational risk and governance,
- the composition and terms of reference of any relevant committees,
- reporting lines,
- nature, scope and frequency of risk reporting to senior management or the Governing Body,
- any appropriate links to Group risk reporting,
- business continuity procedures in case of disruptive event,
- succession plan including key person risk,
- exit strategy

While the list provided above includes our minimum expectations, the level of details may vary from firm to firm based on the nature, scale and complexity of the business.

Depending on the proposed business activities, firms may refer to the following publications that can help to establish their risk systems and controls:

1. Insurance Core Principles, International Association of Insurance Supervisors: <https://www.iaisweb.org/file/69922/insurance-core-principles-updated-november-2017>
2. Risk management principles in banking business, Basel Framework https://www.bis.org/basel_framework/chapter/SRP/30.htm
3. The EBA Methodological Guide Risk Indicators and Detailed Risk Analysis Tools, European Banking Authority <https://eba.europa.eu/sites/default/documents/files/documents/10180/1380571/343e01d7-0c8f-4d7f-b59e-cc23a7b9dd9d/Revised%20EBA%20Methodological%20Guide%20-%20Risk%20Indicators%20and%20DRAT%20%2820%20March%202019%29.pdf>
4. Risk management Guidelines, International Organization for Standardization <https://www.iso.org/obp/ui#iso:std:iso:31000:ed-2:v1:en>