

## **Frequently Asked Questions (FAQs) on Standards for Exchange Business (Version 1.10)**

- 1. How can an Exchange House raise queries or seek clarifications from the Central Bank on various requirements of the Standards?**

*Answer:* Exchange Houses may send their queries regarding the Standards by email to [info.ehs@cbae.gov.ae](mailto:info.ehs@cbae.gov.ae).

- 2. What is meant by “client” under Paragraph 1.2.3 of Chapter 1?**

*Answer:* A client in this context means a legal entity in the UAE which utilizes the WPS service offered by an Exchange House in order to disburse the salaries/wages to its employees.

- 3. Can an Exchange House apply for a Letter of No Objection from the Central Bank to sell/offer a special product/service, which is not listed in the Special Product Matrix?**

*Answer:* Yes, Exchange Houses may request for a Letter of No Objection from the Central Bank in order to sell/offer a special product/service which is not listed in the Special Product Matrix. The Exchange House must follow the procedures discussed under Paragraph 1.2.4 (e) of Chapter 1 in order to obtain the Letter of No Objection from the Central Bank.

- 4. Is an Exchange House required to submit the Certificate of Remittance Value to the Central Bank every year?**

*Answer:* Yes, Exchange Houses must submit the “Certificate of Remittance Value (CRV Form)” for the previous financial year issued by their External Auditor to the Central Bank before 1<sup>st</sup> of March every year. The CRV Form must be submitted to the Banking Supervision Department and a copy of it must also be sent by email to [info.ehs@cbae.gov.ae](mailto:info.ehs@cbae.gov.ae).

However, the CRV Form for the financial year 2017 must be sent by email to [info.ehs@cbae.gov.ae](mailto:info.ehs@cbae.gov.ae) within two (2) month from the date of issue of the Standards and then be submitted to the Banking Supervision Department. The remittance data for the corresponding financial year submitted by the Exchange Houses via ERF 38 (RTS Monthly – 1) must be reconciled against the remittance turnover in the CRV Form and discrepancies, if any, with reasons must be highlighted in a separate letter.

- 5. Is an Exchange House required to increase the paid-up capital and value of bank guarantee favoring the Central Bank immediately upon the issuance of the Standards?**

*Answer:* Exchange Houses must increase its paid-up capital and bank guarantee to the minimum level as required by Notice No. 269/2016 issued on 25<sup>th</sup> August 2016 in three equal annual instalments on or before 29<sup>th</sup> September 2019. Exchange Houses are not required to obtain any approval of the Central Bank in order to increase its paid-up capital to comply with the requirements of Notice No. 269/2016.

*Therefore, Exchange Houses were expected to increase the paid-up capital and bank guarantee by 1/3<sup>rd</sup> of the amount required to equalize with the minimum paid-up capital and equivalent amount of bank guarantee (i.e. first instalment) on or before 29<sup>th</sup> September 2017. The Exchange House must arrange to immediately increase the first instalment of the paid-up capital and bank guarantee in case an Exchange House failed to increase the same until the date of issue of the Standards.*

**6. Can an Exchange House increase its paid-up capital without obtaining a Letter of No Objection from the Central Bank?**

***Answer:** Exchange Houses are permitted to increase their paid-up capital to the level of minimum paid-up capital as required under Paragraph 2.3 of Chapter 2 (or Notice No. 269/2016 issued on 25<sup>th</sup> August 2016 ) without obtaining a Letter of No Objection from the Central Bank. Any increase of paid-up capital beyond the minimum required level would require a Letter of No Objection from the Central Bank.*

**7. How would an Exchange House be notified of the requirement to increase the value of bank guarantee to equalize with the 5% of the monthly remittance average value?**

***Answer:** In case the 5% of the monthly remittance average value for the previous financial year is more than the existing value of the bank guarantee as on the date of issue of the Standards, then the Exchange House must arrange to increase the guarantee to an amount equivalent to the 5% of the monthly remittance average value for the previous financial year. In such cases, the Exchange Houses are not eligible for the grace period of three years as per Notice No. 269/2016 issued on 25<sup>th</sup> August 2016 to increase the value of bank guarantee.*

*The Central Bank, after reviewing the CRV Form and other applicable periodical returns submitted by the Exchange House to the Central Bank, would send a letter to the Exchange House demanding the additional bank guarantee wherever required. The Exchange House must arrange to submit the additional bank guarantee prior to the deadline stated in the letter.*

**8. Can an Exchange House continue to carry out the remittance business if it has no financial capability to increase the value of the bank guarantee to 5% of monthly remittance average value of the previous financial year?**

***Answer:** Yes, however, the Exchange House must restrict its average monthly remittance value to 20 times the value of its existing bank guarantee in accordance with Paragraph 2.6.3 of Chapter 2 in case it is incapable to increase the value of its bank guarantee to equalize with 5% of the monthly remittance average value. Exchange Houses must note that the average monthly remittance value in such cases must be computed based on the remittance turnover from 1<sup>st</sup> January of the current financial year until the date of computation assuming that each month has 30 calendar days.*

**9. What are the powers to be granted to the Manager in Charge of an Exchange House via a Power of Attorney from its Owner, Partners, Shareholders or Board of Directors?**

**Answer:** *The Manager in Charge must be authorized via an appropriate Power of Attorney to sign communications with the Central Bank, such as letters, reports, various approval requests, etc. Granting any power(s) to the Manager in Charge, other than the power to sign the communications with the Central Bank, is exclusively at the discretion of the Owner, Partners, Shareholders or Board of Directors of the Exchange House.*

**10. Is it necessary to obtain the approval of the Central Bank before an Exchange House distributes or pays dividend or share of retained earnings/profits to the Shareholders or Partners or Owner?**

**Answer:** *No, the approval of the Central Bank is not required for an Exchange House to distribute/pay dividend or to share profits to the Shareholders, Partners or Owner unless the Exchange House has previously been instructed by the Central Bank in writing to do so. However, any distribution/payment of dividend or share of retained earnings/profits must be made only in accordance with the conditions of Paragraph 4.11 of Chapter 4.*

**11. Is it necessary to obtain a Letter of No Objection from the Central Bank to provide security deposits in cash either for establishing a business relationship or for obtaining a bank guarantee?**

**Answer:** *Yes, the Exchange House must obtain a Letter of No Objection from the Central Bank in order to encumber any of its assets including the security deposit in cash irrespective of the purpose of such encumbrance. However, deposits for labour guarantee or utility services do not require the Exchange Houses to obtain the Letter of No Objection from the Central Bank.*

**12. Does the “local currency” under Paragraph 4.13.2 (e) of Chapter 4 include a Cheque collected from a customer as part of settlement of his remittance transaction?**

**Answer:** *Yes, a Cheque collected from a remittance customer may be treated as part of local currency for the purpose of fulfilling the requirements of Paragraph 4.13.2 (e) of Chapter 4, provided that such remittance transaction is not processed until the Cheque is cleared and the amount is credited in the bank account of the Exchange House. The value of such unprocessed transactions must also be treated as remittance liabilities.*

**13. How would an Exchange House be able to confirm its Risk Grade and obtain clarifications about risk grading process?**

**Answer:** *The risk grading awarded to an Exchange House, whether it falls under Low/Medium/High/Very High/Unacceptable Risk, shall be stated in the Transmittal Letter issued by the Central Bank after conducting an onsite examination. The Risk Grade awarded to an Exchange House is dynamic and therefore, keeps changing depending on its level of compliance with all applicable Laws, Rules, Regulations, Standards and Notices. The Compliance Officer, Manager in Charge or any other authorized signatory of the Exchange House may contact the Central Bank to confirm or to seek clarifications about its Risk Grade at any point in time.*

*The Exchange House may meet with the respective Reviewer and the Examiner after setting up a prior appointment and produce appropriate documentary evidences to prove its level of compliance if it is not satisfied with the Risk Grade awarded by the Central Bank. Based on the verification of documentary evidences, the Central Bank may decide to update the Risk Grade of an Exchange House.*

**14. Is it required to obtain a Letter of No Objection from the Central Bank prior to the appointment of a functional head or Member of the Board of an Exchange House?**

***Answer:** The Exchange House must obtain a Letter of No Objection from the Central Bank prior to the appointment of the following roles/positions:*

- a) Manager in Charge;*
- b) Compliance Officer; and*
- c) Alternate Compliance Officer.*

*Exchange Houses are not required to obtain a Letter of No Objection from the Central Bank prior to the appointment of any roles/positions, whether a functional head or a Member of the Board, other than those stated above.*

**15. Is it required to notify the Central Bank about the resignation of a functional head or Member of the Board of an Exchange House?**

***Answer:** The Exchange House must notify the Central Bank in case one of the following roles/positions within its organization structure resigns or vacates the office in any manner with the reasons thereof via email to [info.ehs@cbae.gov.ae](mailto:info.ehs@cbae.gov.ae):*

- a) Manager in Charge;*
- b) Compliance Officer; and*
- c) Alternate Compliance Officer.*

*The above notification must be sent to the Banking Supervision Department within five (5) working days from the date of resignation or termination of the employment.*

*Exchange Houses are not required to notify the Central Bank in case there is any resignation or termination of employment of roles/positions, whether a functional head or a Member of the Board, other than those stated above.*

**16. The Manager in Charge of an Exchange House has already undergone fit and proper test and obtained a Letter of No Objection from the Central Bank prior to the date issue of the Standards. Is it required for such an Exchange House to request for a Letter of No Objection from the Central Bank for the same Manager in Charge upon the issuance of the Standards?**

**Answer:** No, the Letter of No Objection issued by the Central Bank for an individual to work as the Manager in Charge of an Exchange House is valid for that specific Exchange House until he vacates his office as Manager in Charge or it is withdrawn/cancelled by the Central Bank.

**17. Is an Exchange House permitted to outsource the Internal Audit function?**

**Answer:** Yes, Exchange Houses are permitted to outsource their Internal Audit function. However, the Exchange Houses must not appoint their External Auditors to carry out the Internal Audit in order to avoid any conflict of interest.

**18. Is it required for an Exchange House to obtain a Letter of No Objection from the Central Bank to appoint an External Auditor every financial year?**

**Answer:** Yes, Exchange Houses must follow the procedures under Paragraph 7.3.2 of Chapter 7 every year to obtain a Letter of No Objection for the appointment of its External Auditor.

**19. Is it required for an Exchange House to rotate or change the Audit Partner (i.e. Audit Partner of the External Auditor) after three (3) consecutive financial years starting from the financial year 2015?**

**Answer:** Yes, the Exchange House must rotate or change the External Auditor after six (6) consecutive financial years. However, the same Audit Partner in an External Auditor is not permitted to carry out the external audit of an Exchange House for more than three (3) consecutive financial years. After three (3) consecutive financial years, the Exchange House must rotate or change the Audit Partner of their External Auditor in accordance with Paragraph 7.3.3 (a) to (c) of Chapter 7.

The limit of three (3) consecutive financial years for the rotation or change of the Audit Partner must be implemented retrospectively and therefore this limit shall be calculated starting from January 2015. Similarly, the limit of six (6) consecutive financial years for the rotation or change of the External Auditor must also be implemented retrospectively and therefore, this limit shall be calculated starting from January 2012.

**20. Is an Exchange House required to obtain a Letter of No Objection from the Central Bank prior to outsourcing a function?**

**Answer:** No, the Exchange House is not required to obtain a Letter of No Objection prior to outsourcing a function provided that it complies with all requirements of Chapter 9 of the Standards. However, the Exchange Houses are not permitted to outsource those specific functions as per Paragraph 9.1.2 of Chapter 9. Further, the Exchange Houses must obtain a Letter of No Objection from the Banking Supervision Department in order to outsource specific tasks of the AML Compliance function as mentioned under Paragraph 9.9.1 of Chapter 9.

**21. Appointment of a dedicated Risk Officer or dedicated Fraud Prevention Officer is based on the nature, size and complexity of the business of an Exchange House. How would an Exchange House be able to determine the complexity of its business?**

*Answer: The complexity of the business of an Exchange House may be determined based on various parameters such as category of license, number of branches, number/type of special products, business model, customer risk, effectiveness of the Senior Management, effectiveness of internal policies/procedures, nature/number of repeated examination findings, etc.*

**22. Is it mandatory to review and update the profile of a customer annually as required by Paragraph 16.9.8 and 16.11.7 of Chapter 16?**

*Answer: The customer profile must be reviewed and updated either annually or upon the next visit of the customer to the Exchange House after a year from the date of onboarding or from the previous review date of the customer profile.*

**23. Various upper limits or thresholds stated in Chapter 16 of the Standards for the purpose of Know Your Customer (KYC) Process are rounded off at AED 0.75. Could you please explain why these thresholds were rounded off at AED 0.75 instead of AED 0.99?**

*Answer: It has been assumed that the value of a transaction carried out by an Exchange House will always be rounded off to the nearest 25 Fils. Therefore, the upper limits for the KYC Process in the Standards are rounded off to AED 0.75 (Refer to KYC thresholds stated under Paragraphs 16.8.1, 16.9.1, 16.13.2(a), 16.13.17(a) of Chapter 16).*

*However, there can be cases where an Exchange House does not round off the value of a transaction to the nearest 25 Fils. Instead, the Exchange House may follow the practice of settling the transaction of a customer at the actual value of the transaction. Exchange Houses, under such circumstances, must replace 0.75 in the upper limits for the KYC Process by 0.99 in all above Paragraphs (i.e. Paragraphs 16.8.1, 16.9.1, 16.13.2 (a), 16.13.17(a) of Chapter 16).*

*Example: The Exchange House must apply Customer Due Diligence (CDD) Process for a natural person who conducts a money transfer transaction of value between AED 1 and AED 74,999.75 as per Paragraph 16.9.1 (b) of Chapter 16. In case the value of a transaction is not rounded off to the nearest 25 Fils, the Exchange House must apply Customer Due Diligence (CDD) Process for a natural person who conducts a money transfer transaction of value between AED 1 and AED 74,999.99. This means, in such cases the upper limit shall be AED 74,999.99 instead of AED 74,999.75 (i.e., 0.75 in the upper limit for the KYC Process has been replaced by 0.99 in Paragraph 16.9.1 (b) of Chapter 16). The same rule shall be applied for all above stated Paragraphs (i.e. Paragraphs 16.8.1, 16.9.1, 16.13.2 (a), 16.13.17(a) etc. of Chapter 16).*

**24. Can an Exchange House treat the unclaimed funds as an income after a specific period provided that the customer is no longer available to collect the refund?**

*Answer: No, the Exchange House must follow the procedures under Paragraph 18.2 of Chapter 18 even if the customer is not available to collect the refund of any unclaimed funds.*

**25. How can an Exchange House obtain the templates for Compulsory Reports and Return Forms listed under Appendix 3 of the Standards?**

*Answer: Exchange Houses may send their requests for the templates for Compulsory Reports and Return Forms to [info.ehs@cbuae.gov.ae](mailto:info.ehs@cbuae.gov.ae).*