

From compliance to confidence

Understanding the Central Bank of UAE's Fitness and Propriety Regulation and Standards

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Introduction

The regulatory landscape in the United Arab Emirates (UAE) is rapidly evolving, and the Central Bank of the UAE (CBUAE) plays a pivotal role in ensuring the stability and integrity of the UAE's financial system.

An example of this evolution is the newly enhanced Fitness and Propriety Regulation (Regulation) and accompanying Fitness and Propriety Standards (Standards). The Regulation and Standards set out the CBUAE's minimum requirements and expectations for Persons who hold Designated Functions to Licensed Financial Institutions (LFIs or Licensees). Good governance protects depositors, policy holders, and key stakeholders. We have observed in some jurisdictions that poor governance and culture affect not only the financial institution involved, but the entire banking system.

The Regulation and Standards align with international standard setters and global best practices, reflecting the UAE's commitment to maintaining and growing a globally competitive financial sector. By adhering to these standards, financial institutions in the UAE can enhance their reputation and credibility on the international stage. This alignment also facilitates cross-border operations and collaborations, further integrating the UAE's financial sector into the global economy.





Enhanced Fitness and Propriety Regulation and Standards

CBUAE laid out its expectations for the governance and accountability framework of LFIs through the Fitness and Propriety Regulation and Standards, implemented through Circular No. 4/2024.

The Regulation and Standards establish a process for assessing fitness and propriety of Applicants, Authorized Individuals, Material Risk Takers, and other persons designated by CBUAE to ensure key individuals have the necessary qualities in a standardised manner. The fitness and propriety requirements might also apply to outsourced entities in certain circumstances. The CBUAE has demonstrated forward thinking in introducing the concept of collective suitability, which we will describe further below. The CBUAE has also shown consideration of proportionality principles by focusing its requirements for each function on the nature and scale of the activities, size, business model, complexity of the operations and risk profile of the Licensee. The proportionality principle must never be applied in the assessment of honesty, integrity and reputation or independence of mind.

The aim of the Regulation and Standards is to improve governance, risk management, and accountability. Article 7, a key part of the regulation, focuses on honesty, integrity, competence, financial conduct, independence of mind, and time commitment for key personnel, including board members, senior management, and material risk takers. Importantly, this assessment of fitness and propriety is not a one-time exercise, but a continuous process.

Requirements for compliance

LFIs have until **July 2025** to meet the requirements set out in the regulation and standards and summarised below:

1. Collective suitability: Collective suitability emphasises the importance of the structure and composition of a LFI's Board to effectively oversee and challenge decisions. Collective competence of the Senior Management team further emphasises the importance of accountability and transparency of Board and Senior Management.

2. Enhanced criteria: The criteria for assessing fitness and propriety have been enhanced to ensure that individuals in key positions possess the necessary qualities and competencies to fulfil their role(s).

3. Expanded definitions: The definitions section has been expanded to include more detailed descriptions of roles such as Actuary, Affiliate, Authorized Individual, and Chief Executive Officer.

4. Mandatory compliance: All LFIs must comply with the standards, in the same manner as the regulations.

5. Ongoing assessment: Licensees are required to ensure that Authorized Individuals and Material Risk Takers continue to meet the fit and proper criteria throughout their tenure. The assessment of suitability takes into consideration all relevant information, whether obtained within the UAE or another jurisdiction, and relies on establishing whether a Person, where applicable, has the necessary knowledge, skills, expertise and experience to conduct their role.

LFIs must demonstrate continued compliance and ongoing monitoring of the key requirements through verification of the honesty and integrity of those holding Authorised functions or Material Risk Taker roles whilst ensuring individuals have sufficient time to devote to fully performing their duties and responsibilities.

These criteria aim to safeguard financial institutions and foster public trust in the banking system by ensuring that individuals in key roles act with integrity and professionalism.

Key impacts

Material Risk Takers, authorised and operating in the UAE, and as part of wider group entity structures across global jurisdictions, should also consider key impacts which may include:

1. Consistency across jurisdictions

LFIs with international operations must ensure that their governance and compliance frameworks are consistent across all jurisdictions. This means that the fitness and propriety standards applied in the UAE must also be adhered to by key personnel in other countries. This consistency helps maintain a unified approach to risk management and ethical conduct across the entire organization.

2. Cross-border compliance

LFIs operating in multiple countries need to navigate the regulatory requirements of each jurisdiction. The UAE's regulations add an additional layer of compliance, requiring LFIs to assess and monitor the fitness and propriety of individuals who may influence the UAE-based entity from abroad. This can be complex, as it involves coordinating with regulatory bodies in different countries and ensuring that all relevant standards are met.

3. Group entity structures and authorized roles outside the UAE

Individuals holding authorized roles outside the UAE but having significant influence over the UAE-based LFI, must comply with the UAE's fitness and propriety standards. This includes obtaining authorization from the CBUAE prior to their appointment or reappointment to designated functions.

For LFIs that are part of a larger group, the regulations require that the fitness and propriety assessments extend beyond the UAE-based entity. This means that the board and senior managers of other entities within the group, **especially those exercising material or controlling influence over the UAE-based LFI**, must also undergo the fit and proper process.

It also means that the UAE entity will be required to review and identify the **“in-scope”** designated functions, beyond the existing role holders in the UAE. Complexities may arise in the identification of these roles and mapping of accountability across the structures will require careful consideration. Such an approach ensures a consistent standard of governance and integrity across the entire group, promoting a unified approach to risk management and ethical conduct.



How LFIs need to respond

Enhanced governance and due diligence

By extending the “Designated Function” in scope population to incorporate the fitness and propriety requirements to new roles, LFIs must now demonstrate adherence to the Fitness and Propriety Regulation and Standards, by embedding a robust governance and assessment framework in response. The Fit and Proper Process will be tailored to the nature and scale of the activities, size, business model, complexity of the operations and risk profile of the Licensee.

Board governance and oversight

LFIs can achieve this through enhancing Board governance and oversight, accountability and transparency, monitoring and evaluating compliance of individuals holding designated roles, adapting recruitment practices to incorporate enhanced screening processes, continuous monitoring and periodic reviews to ensure individuals are consistently meeting the requirements.

Developing and embedding policies and procedures for ongoing monitoring, evaluation and review, together with managing conflicts of interest, further strengthen the approach to compliance with fitness and propriety. This includes managing potential or perceived conflicts of interest.

Due diligence

All LFIs, including those with group entities and individuals outside the UAE, must also consider international operations which necessitate enhanced due diligence processes to ensure that individuals in key roles meet the UAE's fitness and propriety standards. LFIs must allocate sufficient resources to conduct these due diligence activities effectively.

This holistic approach helps mitigate risks associated with unethical behaviour and ensures that all key personnel, regardless of their location, adhere to high ethical standards.

Cultural change

Promoting a culture of transparency, accountability and integrity within the organization is essential for compliance. The recent amendments to the Regulations and Standards demonstrate greater accountability and incorporate roles including Head of Legal, Chief Actuary, Chief Information Security Officer, and Head of Internal Shari'ah Control Division or Head of Internal Shari'ah Audit Division are all now subject to the same rigorous fit and proper criteria as other key positions within financial institutions.

Reputation and trust

Adhering to the CBUAE's Regulation and Standards can enhance the reputation and trust of LFIs both locally and globally. By demonstrating a commitment to high ethical standards and robust governance, LFIs can build stronger relationships with local and international stakeholders, including customers, investors, and regulators.

Training and leadership development

Develop training workshops to improve skills in governance, regulatory understanding and risk management to promote continuous professional development, whilst monitoring and whilst streamlining the assessment process and reporting mechanisms to assess compliance. The Regulation requires certain minimums in terms of training for on-boarding and for continuous professional development.

Conclusion

The CBUAE's Fitness and Propriety Regulation and Standards have far-reaching implications for all CBUAE licensed financial institutions. By ensuring consistent standards of governance and integrity across the entire group, these regulations enhance risk management and promote ethical conduct. While there are operational challenges, the long-term benefits of a unified and robust governance framework are substantial.

How we can help

Our Risk Advisory team can provide bespoke support and assist LFIs to comply with the CBUAE Fitness and Propriety Regulation & Standards in several ways:

- **Compliance assessments:** We can conduct comprehensive gap assessments by reviewing current group structure and maturity of the compliance framework. We will identify gaps and areas for improvement against the current assessment criteria. Including identification of LFI “in-scope” population of those who exercise a material or controlling influence.
- **Maturity assessment:** We can evaluate the maturity of the existing Fitness and Propriety Process and assessment criteria, identifying opportunities to centralise processes. We can map the responsibilities of authorised persons holding designated functions, through assessment of job descriptions, structure charts, and committee charters.
- **Policy & process development:** We will develop, update, and or implement policies and procedures that align with the new regulations. This includes developing enhanced assessment criteria, templates.
- **Training programs:** Our team of seasoned professionals can provide training for staff to ensure everyone understands the new requirements and their responsibilities.
- **Risk management:** We will review and enhance risk management frameworks to meet the stringent criteria set by the CBUAE.
- **Regulatory reporting:** We can help with updating reporting and record keeping policies to align with Article 10 of the Regulation and Standards, to ensure ongoing compliance.

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