CRUNCH TIME HAS COME FOR UAE CORPORATE SERVICE PROVIDERS

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COVID-19 was not the only shockwave to hit corporate services providers – or CSPs – operating regionally in 2020.

The same year, the UAE got evaluated by the Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog.

The report that followed [see: FATF Mutual Evaluation Report on the UAE released] made just a small wave. This small wave is about to turn into a Tsunami.

Enforcements for non-compliance is at an all-time high – CSPs, Accountants, Auditors: look out!

What the Report identified were the drastic changes on the horizon for so-called DFNBPs – Designated Non-Financial Businesses and Professions e.g., trusts and corporate services providers, lawyers, accountants and auditors, as well as dealers in precious metals and stones and real estate operators–, sectors deemed "high risk" from a financial crime perspective.

The question was not 'if' enforcement actions would occur against operators, but rather 'when'. The Answer? NOW.

Over the past two quarters, a significant regulatory push to ensure compliance with UAE AML Law has occurred amidst market players.

In October 2020, 200 UAE law firms had their license suspended for failing to maintain appropriate AML systems and controls. One month later, seven of these firms were fined AED 100,000 each for failing to address these breaches.

In January, the UAE Central Bank imposed financial sanctions totaling AED 46 million on 11 banks and an exchange house for AML deficiencies.

Enforcement is clearly not stopping there. Earlier this month, the Ministry of Justice announced the extension of a grace period for DNFBPs to regularize themselves until 31 March 2021. After banks and law firms, there is little doubt that CSPs and accounting/audit firms are next with other DFNBPs [See: OPED - From house of cards to house of bricks] in the clampdown on non-compliant players.

In its Report, the FATF accounted for 1572 Law Firms operating in the UAE, be it in mainland, commercial free zones or financial free zones [ADGM/DIFC]. Thirteen percent of these – recall those 200 UAE law firms whose license got suspended? – were found non-compliant.

Now if these proportions are to be applied to CSPs and accountants / auditors, the numbers simply beggar belief.

285 accounting/audit firms and 646 CSPs are at risk of having their business shut down on account of AML non-compliance

In its Report, the FATF identified 2,198 accounting & audit firms operating in the UAE across mainland, commercial free zones and ADGM/DIFC. For CSPs, this number climbs up to a staggering 4,968. This is not sustainable for any financial centre, let alone a small jurisdiction like the UAE. A market consolidation is inevitable.

Simple math suggests that about 285 accounting/audit firms and 646 corporate services providers are at risk of having their business shut down on account of non-compliance with UAE AML Laws.

The UAE has worked extremely hard to establish itself as one of the five 'super-jurisdictions'. DIFC and ADGM are global tier-1 financial centres, the UAE is one of the top-10 Foreign Direct Investment jurisdictions worldwide - an incredible feat for such a tiny nation – as well as one of the dozen or so most competitive structuring centres on the planet.

It has achieved this enviable position by constantly expanding and updating its regulatory framework. It has no reason to compromise on compliance. CSPs, Accountants, Auditors: look out!

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