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# Compliance & Enforcement Annual Report 2016

For the period ended December, 2016  
Capital Markets Supervision Directorate  
Investigation & Enforcement Department



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## 1. Introduction



The Capital Market Supervision Directorate’s (the “CMSD”) regulatory mandate is to set and enforce high quality capital market industry standards, protect investors and strengthen market integrity while supporting a stimulating capital markets’ ecosystem. The Investigation and Enforcement (“IE”) team within the CMSD assumes responsibility to ensure effective enforcement of the Central Bank of Bahrain’s ( the “CBB”) regulatory requirements, in order to achieve fairness, transparency, investor protection and safeguard public interests in the Kingdom of Bahrain.

In pursuing these mandates, IE aims to institute a fully-fledged proactive enforcement regimen that ensures the fulfilment of CMSD’s requirements by listed companies, self-regulatory organizations (“SROs”) and the related licensees. Accordingly, given each department’s invaluable role, the CMSD as a whole, strives to continue to instil and integrate the compliance and enforcement function, directorate-wide. CMSD believes that this inclusive view of enforcement strengthens and enhances the efforts expended to protect the integrity of the capital markets.

This annual report provides a comparative overview of CMSD’s efforts in 2015-2016 to identify and address non-compliances, negligence or misconduct, most specifically as it pertains to listed companies, in order to enact the word of the law, safeguard the interests of all relevant stakeholders and ensure a stimulating environment within which the needs of members, investors and the regulator are met.

## 2. Compliance Status 2016

With reference to MIE-3.1.8 of the Market Surveillance, Investigation and Enforcement Module of Volume 6 of the CBB Rulebook, in deciding on any given regulatory and enforcement response, the CBB is dependent on examining the circumstance of each individual contravention against the CBB Law and all the relevant Modules of Volume 6 of the CBB Rulebook. The CBB’s approach is three-way, in that the gravity of each respective contravention is assessed, the concerned person’s/entity’s compliance track record is examined and finally remedial measures to prevent future contraventions are evaluated and consequently instituted.

Accordingly, this section will examine the predominant cases of contraventions of CBB Law and CBB rulebook requirements resulting from listed companies and SROs over the past couple of years.

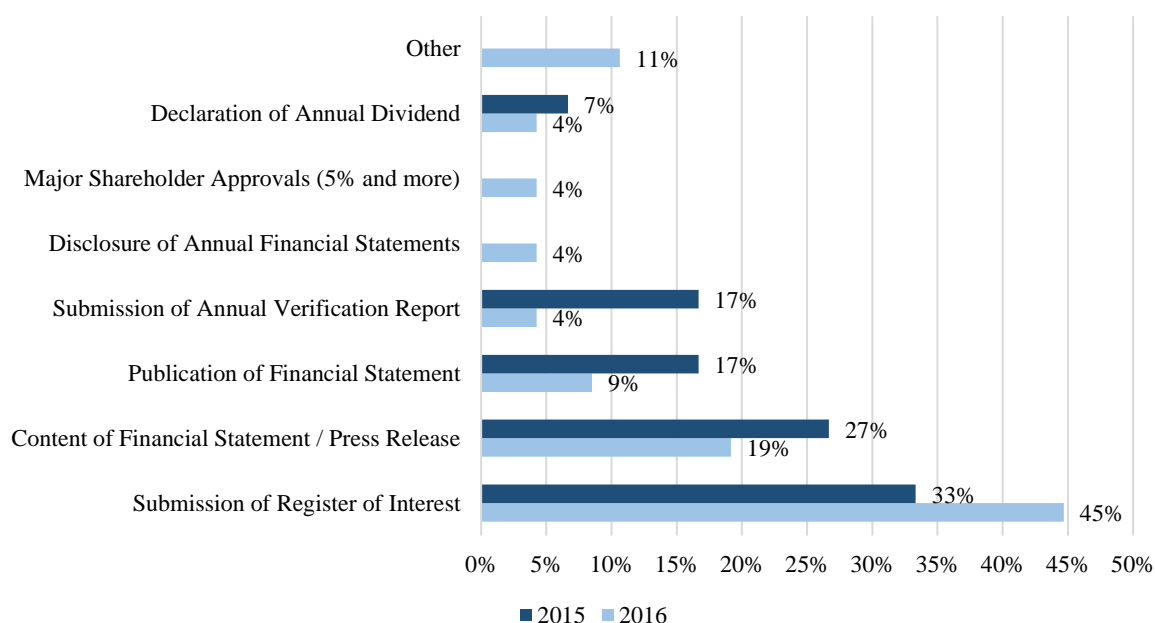
### 2.1. Contraventions by Listed Companies

#### 2.1.1. Most Recurring Contraventions by Type

Figure 1 below outlines the overall trend of CMSD-identified contraventions (including those to which it issued Non-Compliance Letters (“NCLs”), Reminders, Notices or suspension of trading) in the years 2015 and 2016 across listed companies:

Figure 1

#### Most Recurring Contraventions by Type, (2015-2016)



As illustrated above, the three most common non-compliances across listed companies for both years are Submission of Register of Interest, Content of Financial Statement/Press Release and Publication of Financial Statement. Seeing as these three categories are related to periodic submissions required by listed companies, their recurrence is usually expected from a regulatory perspective due to their high frequency. It is worth noting however, that the

substantial increase in contravention cases between 2015 and 2016 as it related to the Submission of Register of Interest, which is a monthly requirement, is predominantly due to a most recently enforced requirement by the CMSD that listed companies also submit their returns via ESRAD, the CBB's electronic submission portal (as per CMSD letters dated 26<sup>th</sup> January 2015 (Ref: CMS/L010/15) and 2<sup>nd</sup> February 2015 (Ref: CMS/L017/15) and to CMSD's e-mail to listed companies dated 18<sup>th</sup> July 2016).

To better contextualize the second most prevalent contravention in 2016, the Content of Financial Statement/Press Release non-compliance category, the following items have been identified as the leading factors to non-compliance in this area:

- ✓ Absence of comparisons between financial statements with those of the corresponding time period;
- ✓ Misleading press release and omission of material information; and,
- ✓ Content of press release inconsistent with the associated financial statement or contradictory to other press releases (often in the alternative language).

Moreover and with reference to the third most common non-compliance of 2016, Publication of Financial Statement, most cases have been identified as contraventions of Resolution No. (54) of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings, which requires listed companies to publish their five primary financial statements in at least two local newspapers, one in Arabic and the other in English within 24 hours of the financial results' notification date. Most non-complying companies have failed to publish their financial statements in the English language.

Table 1 below outlines these non-compliance cases in further detail:

**Table 1**

<b>Listed Company Contraventions by Type (2015-2016)</b>		
<b>Contraventions by Type</b>	<b>2016</b>	<b>2015</b>
<b>Content of Financial Statement / Press Release</b>	<b>9</b>	<b>8</b>
<b>Declaration of Annual Dividend</b>	<b>2</b>	<b>2</b>
<b>Disclosure of Annual Financial Statements</b>	<b>2</b>	
<b>Major Shareholder Approvals (5% and more)</b>	<b>2</b>	
<b>Publication of Financial Statement</b>	<b>4</b>	<b>5</b>
<b>Submission of Annual Verification Report</b>	<b>2</b>	<b>5</b>
<i>Submission of register of interest</i>	<i>7</i>	<i>10</i>
<i>Submission of register of interest - through ESRAD</i>	<i>14</i>	
<b>Submission of Register of Interest Total</b>	<b>21</b>	<b>10</b>
<i>AGM Agenda Approval</i>	<i>1</i>	
<i>Content of Register of Interest</i>	<i>1</i>	
<i>Disclosure of Material Corporate Information</i>	<i>1</i>	
<i>Non-compliance with CMSD Requests</i>	<i>1</i>	
<i>Publication of Financial Statement Prior to BOD Approval</i>	<i>1</i>	
<b>Other Total</b>	<b>5</b>	
<b>Grand Total</b>	<b>47</b>	<b>30</b>

As outlined in Table 1 above, total non-compliances by listed companies in 2016 (47 contraventions) has exceeded 2015's (30 contraventions) by 17 cases, the majority of which is attributed to the aforementioned newly enforced Submission of Register of Interest – through ESRAD requirement.

### 2.1.2. Suspension Cases by Contravention Type & Listed Company

In addition to viewing the contravention cases by type, the CBB's enforcement mechanism must also be examined. As per Article 87 of Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law, the CBB is empowered to suspend trading of any listed securities facing exceptional circumstances which it considers as sufficient grounds for suspension. Table 2 below denotes notable suspension cases of 2015-2016:

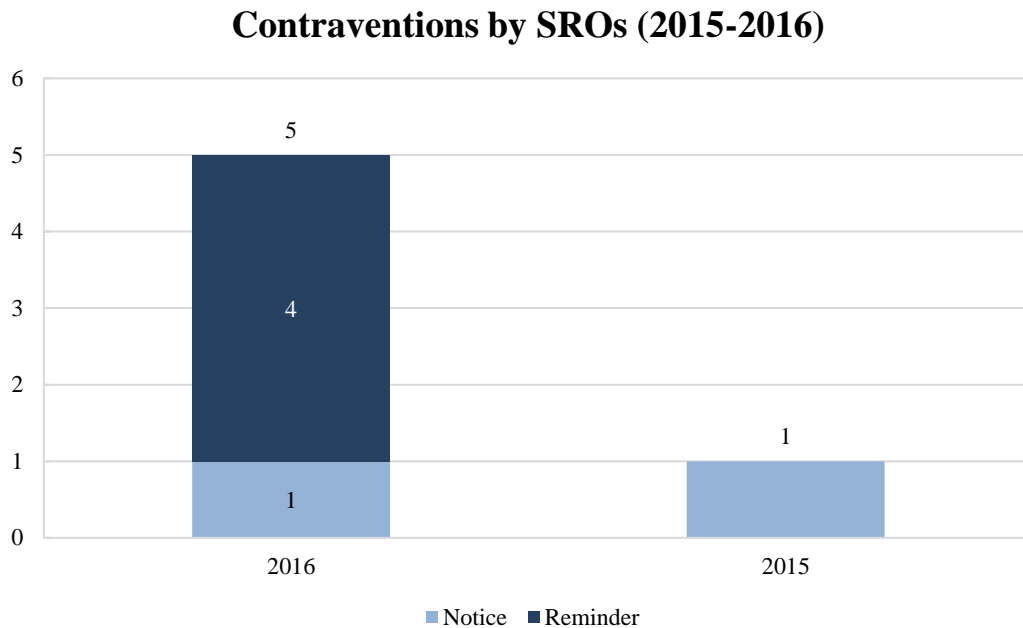
Table 2

<b>Suspension Cases by Contravention Type &amp; Listed Company (2015-2016)</b>				
<b>Contravention Type</b>	<b>Listed Company</b>	<b>Legal Reference</b>	<b>2016</b>	<b>2015</b>
<b>Content of Financial Statement / Press Release</b>	Inovent B.S.C.	CBB's Disclosure Standards particularly Article 65 "Content and Preparation of a Public Announcement".	1	
	GFH Financial Group B.S.C	Decree No. (60) of 2010 regarding the Incorporation of Bahrain Bourse Closed Joint Stock Company (B.S.C.(c)); CBB Law 2006; Bahrain Bourse Rules & Regulations.		1
		Resolution No. (54) of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings	1	
<b>Disclosure of Annual Financial Statements</b>	Bahrain Tourism Company	Resolution No. (54) of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings.	1	
<b>Publication of Financial Statement</b>	Ithmaar Holding B.S.C.	Resolution No. (49) of 2007, particularly Article (3) in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings.		1
<b>Other - Disclosure of Material Corporate Information</b>	Al Ahlia Insurance Company	CMSD letter dated 3rd December 2003 (ref: ODG/407/03) regarding Disclosure Standards and TMA Module of the CBB Rulebook's Volume 6.	1	
<b>Grand Total</b>			<b>4</b>	<b>2</b>

## 2.2. Contraventions by Self-Regulatory Organizations (SROs)

With reference to MIE-A.4.2 of the Market Surveillance, Investigation and Enforcement Module of Volume 6 of the CBB Rulebook, the CBB's role encompasses regulatory supervision which includes licensing, supervision, inspection, investigation and enforcement and regulatory oversight on the licensed exchanges, licensed market operators, licensed clearing houses and depositories and other SROs.

Figure 2



## 3. Conclusion

In conclusion, the CMSD carefully considers the appropriate regulatory response to potential breaches of rules or market misconduct. Seeing as each non-compliance or suspected case is unique and involves a variety of different circumstantial elements, the CMSD strives to be as consistent and transparent as possible in the related decision-making. The CMSD's most prevalent role revolves around ensuring effective implementation and enforcement of CBB's regulatory requirements for the capital markets, as such, it continuously seeks to develop and improve its regulatory framework (including the clear articulation of regulatory requirements to all stakeholders, imposition of sanctions and enforcement of disciplinary actions) in line with regional and international counterparts and benchmarks. Ultimately, and in line with findings of this annual report, the CMSD, alongside key stakeholders, will work to improve standards of compliance in the market, reduce recurrences and overall boost market awareness of its regulatory framework – with the core objective of solidifying the efficiency of one of Bahrain's aspired key financial drivers, the capital markets.