




SUPPLEMENTARY INFORMATION
Appendix CL- (i)
Client Money Protection:
Agreed Upon Procedures

CONSULTATION

**Client Money Protection: Agreed Upon Procedures
History**

Change Date	Description of Changes
[Month Year]	Initial Launch

CONSULTATION

 Central Bank of Bahrain Rulebook	Volume 1: Conventional Bank Licensees
Appendix CL – (i): Client Money Protection: Agreed Upon Procedures	

AGREED UPON PROCEDURES REPORT

[CONVENTIONAL BANK LICENSEE]

Financial year ended 31 December 20XX

Report to the CBB pursuant to Rule CL-1.4.1

<i>Sr. No.</i>	<i>Procedure</i>
	<i>Client Money Protection Rules (CL 1.1)</i>
	<i>Segregation of Client Money</i>
1	We will enquire and obtain evidence on a sample basis that the conventional bank licensee holds the client money separate from its own, except to the extent permitted by the rules under (Paragraph CL-1.1.1)
2	<p>Where the conventional bank licensee does not hold the client money separate from its own as permitted by the rules under (Section CL-1.1.1) will enquire and obtain evidence on a sample basis that:</p> <ol style="list-style-type: none"> a. the client has given an express consent in writing; b. the use of the client money is restricted to the terms agreed by the client; and c. the document in which that client’s consent is requested by the conventional bank licensee gives clear information to the client on the obligations and responsibilities of the conventional bank licensee and/or of the clients for whose account the conventional bank licensee has been allowed to use the client’s money, with respect to the use of the money (including the terms for the restitution of the money) and the risks involved.

<i>Sr. No.</i>	<i>Procedure</i>
3	<p>We will enquire and obtain evidence on a sample basis that the conventional bank licensee has communicated to its clients in writing no later than 10 business days from the initial transaction date, as a minimum, the following information: (CL-1.1.2 and CL-5.1.2)</p> <ol style="list-style-type: none"> a. the basis and terms governing the way in which the client money will be held; b. that the client is subject to the protection conferred by the client money protection rules and as a consequence: <ol style="list-style-type: none"> i. the client money will be held separately from money belonging to the conventional bank licensee; and c. in the event of the conventional bank licensee’s insolvency, winding–up, or other similar event, the client’s money will be subject to the Laws of the Kingdom of Bahrain. whether interest is payable to the client and, if so, the terms and frequency of such payments; d. notwithstanding that the client money will benefit from the protections conferred by the client money protection rules, the client will still be taking unsecured credit risk on any bank or third party with whom the conventional bank licensee places the client money that it holds; e. if applicable, that the client money may be held in a jurisdiction outside the remit of the CBB and that the market practices, insolvency and legal regimes applicable in that jurisdiction may differ from the regime applicable in the CBB; f. if applicable, that the conventional bank licensee holds or intends to hold the client money in a client bank account with a designated bank or in a third party account with an eligible third party which is in the same group as the conventional bank licensee and the identity of the designated bank or eligible third party concerned; g. if applicable, details about how any client money arising out of Islamic financial business is to be held; and h. details of any claims or set offs which the conventional bank licensee may have in client money held on behalf of the client in satisfaction of a default by the client or otherwise, and any rights which the conventional bank licensee may have to closeout or liquidate contracts or positions in respect of any of the client money, without the client’s prior instruction or consent.
4	<p>We will enquire and obtain evidence that the conventional bank licensee holds the client money in a client bank account at another bank which is not connected by way of control, directorship or ownership to the conventional bank licensee which receives the funds. (CL-1.1.3)</p>

<i>Sr. No.</i>	<i>Procedure</i>
5	We will enquire and obtain evidence that the client's bank accounts are only opened with retail banks, in Bahrain or outside Bahrain after being subject to due diligence by the conventional bank licensee (CL-1.1.6).
	<i>Transfer of money to eligible third parties</i>
6	We will enquire and obtain evidence on a sample basis that the conventional bank licensee only pays, or permit to be paid, client money into an account with a person who is not a client bank account if that person is an eligible third party. (CL-1.1.7) [Eligible third parties are recognised exchanges, clearing houses and third party intermediaries (such as brokers), that are duly authorised or licensed by the appropriate regulatory oversight body to conduct investment activities. (CL-1.1.8)]
7	If client money has been paid to an eligible third party we will check on a sample basis that the investment firm licensee only transferred the client money: (i) for the purpose of a transaction for a client through or with that eligible third party; or (ii) to meet a client's obligations to provide collateral for a transaction; In the case of a retail client, we will check on a sample basis that client has been notified in writing that the client money may be transferred to the other person. (CL-1.1.9)
8	If client money has been paid to an eligible third party we will enquire and obtain evidence that the conventional bank licensee as a minimum, included the following in its assessment of the suitability of an eligible third party before allowing it to hold or control client money:: a. the eligible third party's credit rating, capital and financial resources; b. the regulatory and insolvency regimes of the jurisdiction in which the eligible third party is located; c. the eligible third party's reputation; d. the eligible third party's regulatory status and history; and e. the other members of the eligible third party's group and their activities.
9	We will enquire and obtain evidence that the conventional bank licensee did not hold money other than client money in a client bank account unless it is: (CL-1.1.11) a. a minimum sum required to open the account or to keep it open; b. money temporarily held in the account in accordance with the mixed remittance rule stated in CL-1.1.13; or c. interest credited to the account which exceeds the amount due to clients as interest and which has not yet been withdrawn by the conventional bank licensee.

10	<p>We will enquire and obtain evidence on a sample basis that if the conventional bank licensee received a mixed remittance (that is part client money and part other money) it did the following: (CL-1.1.13)</p> <ul style="list-style-type: none">a. paid the full sum into a client bank account; andb. paid the money that is not client money out of the client bank account within one business day.
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<i>Sr. No.</i>	<i>Procedure</i>
11	Where client money is kept in client transaction accounts with intermediate brokers, settlement agencies and over the counter (OTC) counterparties we will enquire and report what steps the conventional bank licensee takes to ensure that these are not excessive. (CL-1.1.14)
	<i>Reconciliation</i>
12	We will enquire as to whether a system has been implemented to perform the reconciliations of both client bank accounts and eligible third party accounts in which client money is held, and obtain evidence on a sample basis that these reconciliations have been carried out on a regular basis (but at a minimum, on a monthly basis as at the last business day of each calendar month) for the period under review, sufficient to ensure the accuracy of its records (CL-1.1.15).
13	We will enquire and obtain evidence that the reconciliations mentioned in point 12 were performed within 10 business days from the date to which the reconciliation relates. (CL-1.1.16)
14	We will enquire and obtain evidence that a reconciliation between the individual ledger balances and client bank accounts/third party balances was prepared (CL-1.1.17).
15	We will enquire and obtain evidence on a sample basis that the conventional bank licensee had investigated and, where applicable, took corrective action as soon as is practicable in respect of unresolved differences, shortfalls and excess balances in respect of reconciliations. (CL-1.1.18)
	<i>Client Reporting (CL 1.2)</i>
16	We will enquire whether the conventional bank licensee sent statement of all client money held by the conventional bank licensee to its client at least quarterly or as often as agreed with that client. (CL-1.2.1).

17	<p>We will enquire and obtain evidence on a sample basis that the statements of client money referred to in point 20: (CL-1.2.2)</p> <ul style="list-style-type: none">a. identify any clients' money which have been provided as collateral;b. identify any client money which have been lent; andc. show any movement of client money clearly and consistently.
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<i>Sr. No.</i>	<i>Procedure</i>
	<i>Record Keeping (CL 1.3)</i>
18	We will enquire and obtain evidence as to whether proper records are kept which are sufficient to show and explain the conventional bank licensee's transactions and commitments in respect of its client money, are made which demonstrate compliance with the provisions of the CBB's Client Money Module (CL-1.3.1)
19	We will enquire and obtain evidence as to whether the client's records are retained for a period of a minimum of ten years after they were made, unless otherwise required by the law. (CL-1.3.1)
20	We will enquire and obtain evidence as to whether the conventional bank licensee (CL-1.3.2) <ul style="list-style-type: none"> a. checks its record-keeping and client money procedures regularly; and b. subjects its record-keeping and client money procedures to an appropriate independent review.
	<i>Collateral</i>
	<i>General Requirements (CL 2.1)</i>
21	We will enquire and obtain evidence that the conventional bank licensee establishes and maintains appropriate systems and controls when it receives or holds money as collateral (CL-2.1.1) in connection with securing a client obligation to it. (CL-2.1.2)

<i>Sr. No.</i>	<i>Procedure</i>
	<i>Third Parties (CL 2.2)</i>
22	<p>We will enquire and obtain evidence that the conventional bank licensee only permits third party to hold client's money if: (CL-2.2.1)</p> <ol style="list-style-type: none"> a. the conventional bank licensee has reasonable grounds to believe that the third party is suitable to hold that collateral; and b. the conventional bank licensee has demonstrated to the CBB's satisfaction the grounds upon which it considers the third party to be suitable to hold clients' collateral.
23	<p>We will enquire and obtain evidence that for such money the conventional bank licensee had notified the third party before client money were deposited with them that: (CL-2.2.2)</p> <ol style="list-style-type: none"> a. the collateral does not belong to the conventional bank licensee; and b. the third party is not entitled to claim any lien or right of retention or sale over the collateral except to cover the obligations of the client which gave rise to that deposit, pledge, charge or security arrangement or any charges relating to the administration or safekeeping of the collateral.
	<i>Record Keeping (CL 2.3)</i>
24	<p>If the conventional bank licensee receives or holds client money under a collateral arrangement and exercises its right to treat the money as its own, we will enquire and obtain evidence that the conventional bank licensee maintained adequate records to enable it to meet any future obligations including the return of equivalent money to the client (CL-2.3.1)</p>
25	<p>We will enquire and obtain evidence that the conventional bank licensee send to its clients a statement listing such collaterals and their market/fair value as at the date of reporting, at least every six months or at other intervals as agreed in writing with the client. (CL-2.3.3)</p>
26	<p>We will enquire and obtain evidence that the statement was dispatched to the client within one calendar month of the date of reporting.(CL-2.3.4)</p>
	<i>Mandates (CL-3)</i>
	<i>Mandates – (Systems and Controls)</i>
27	<p>Where the conventional bank licensee has a written mandate from a client under which it may control a client's assets or liabilities in the course of, or in connection with, the investment firm licensee's regulated investment services, we will enquire and obtain evidence that the conventional bank licensee establishes and maintains adequate records and internal controls in respect of its use of the mandates, which should include: (CL-3.1.2)</p> <ol style="list-style-type: none"> a. an up-to-date list of the mandates and any conditions placed by the client or the conventional bank licensee's management on their use; b. a record of all transactions entered into using the mandates, and internal controls to ensure that they are within the scope of authority of the person and the conventional bank licensee entering into the transaction; c. the details of the procedures for the giving and receiving of instructions under the authority; and d. where the conventional bank licensee holds a passbook or similar documents belonging to the client, internal controls, for the safeguarding (including against loss, unauthorized destruction, theft, fraud or misuse) of any passbook or similar document belonging to the client held by the conventional bank licensee.

<i>Sr. No.</i>	<i>Procedure</i>
	<i>Client Money Distribution (CL-4)</i>
	<i>Third Party Related Distribution (CL 4.2)</i>
28	<p>Where a third party holding client money becomes insolvent (“third party related distribution event”) we will enquire and obtain evidence that the conventional bank licensee has showed proper care: (CL-4.2.2)</p> <ol style="list-style-type: none"> a. in the selection of that third party; b. when monitoring the performance of the third party; and c. when notifying clients in its terms of business the distribution rules applicable in the event of a third party distribution event.
29	<p>Following the occurrence of a “third party-related distribution event” in relation to a designated bank or eligible third party, we will enquire and obtain evidence that: (CL-4.2.3)</p> <ol style="list-style-type: none"> a. the conventional bank licensee makes and retains a record of each client’s share of the shortfall and notified the amount of the shortfall to the affected clients (except where the conventional bank licensee chooses to make good the shortfall); b. client money received after the third party-related distribution event: <ol style="list-style-type: none"> i. was not transferred to the designated bank or eligible third party which has suffered the third party-related distribution event unless this was on the specific instructions of the client (given after the occurrence of the third party related distribution event) in order to settle an obligation of that client to that designated bank or eligible third party; and ii. was subject to (i) placed in a separate client bank account that was opened with a different designated bank after the third party related distribution event had occurred.

Basis of Opinion

Because the above procedures do not constitute an audit or a review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any audit or review assurance on the information reported as required under Module CL (Client Money). Had we performed additional procedures or had we performed an audit or review of the report in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is only for the information of the conventional bank licensee and the CBB. This report should not be used for any other purpose or to be distributed to any other parties. This report relates only to the procedure for the year ended 31 December 20XX.

Name of auditor

Date