

Financing Companies Licensees Draft Modules – Volume 5
Industry Comments and Feedback
January 2013
Module AU

Reference to the draft Directive:	Comments	REF	CBB's Response
<p>AU-1.1.4 <u>Licensees</u> are not obliged to include the word 'financing company' in their corporate or trading names; however, they may be required to make clear their regulatory status in their letter heads, customer communications, website and so on.</p>	<p>A licensee noted that with regard to the use of "financing company" in letter heads, website etc., it is suggested that the CBB to allow to use of alternative wording as "financial institution". For example, the licensee would reflect in its communication as "Regulated by the Central Bank of Bahrain as an Islamic financial institution".</p>	<p>SP1</p>	<p>AU-1.1.3 Only persons licensed to undertake regulated financing services (or regulated Islamic financing services), may use the term 'financing company' in their corporate or trading names, or otherwise hold themselves out to be a financing company.</p> <p>Referring to the above rule, licensees can use the sentence "regulated by the Central Bank of Bahrain as a Specialised licensee-financing company".</p>
<p>AU-1.2.2 <u>Controlled functions</u> are those of: (a) Member of the Board of <u>Directors</u>; (b) <u>Chief Executive</u> or <u>General Manager</u>; (c) <u>Head of function</u>; (d) Compliance Officer; (e) Money Laundering Reporting Officer; and (f) Member of Shari'a Supervisory Committee (for Islamic <u>Financing Company</u>).</p>	<p>A licensee noted that the title "Head of Function" is very generic. It is recommended that it be limited to the heads of Finance and Risk given that the functions of Money Laundering Reporting Officer, Compliance Officer and Chief Executive Officer are already included in the draft regulations.</p>	<p>SP2</p>	<p>Disagree- Head of function is not limited to finance and risk.</p> <p>The definition of "Head of Function" as per AU-1.2.8 is: Head of function means a person who exercises major managerial responsibilities, is responsible for a significant business or operating unit, or has senior managerial responsibility for maintaining accounts or other records of the licensee.</p>

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<p><i>AU-1.2.12</i> All <u>licensees</u> must designate an <u>employee</u>, of appropriate standing and resident in Bahrain, as compliance officer. The duties of the compliance officer include:</p> <ul style="list-style-type: none"> (a) Assisting <u>senior management</u> to identify and assess the main compliance risks facing the <u>licensees</u> and the plans to manage them; (b) Advising <u>senior management</u> on compliance laws, rules and standards, including keeping them informed on developments in the area; (c) Assisting <u>senior management</u> in educating staff on compliance issues, and acting as a contact point within the <u>licensee</u> for compliance queries from staff members; (d) Establishing written guidance to staff on the appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines; (e) On a pro-active basis, identifying, documenting and assessing the compliance risks associated with the <u>licensee's</u> business activities, including the development of new 	<p>A licensee noted that the clause (g) should be reworded to state “Reporting on a regular basis to the Board of Directors or the Audit Committee of the Board of Directors.”</p>	<p>SP3</p>	<p>Agree – clause (g) will be amended as suggested..</p>
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<p>products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships;</p> <p>(f) Monitoring and testing compliance by performing sufficient and representative compliance testing; and</p> <p>(g) Reporting on a regular basis to the board of directors.</p>			
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<p>AU-2.2.2 The CBB requires that all <u>approved persons</u> occupying <u>controlled functions</u> outlined in Paragraph AU-1.2.2, except for Subparagraphs (a) member of the board of <u>directors</u> and (f) member of the Shari’a Supervisory Board, be resident in Bahrain.</p>	<p>A licensee noted that the requirement that approved persons holding controlled functions other than Board members and members of the Sharia Supervisory Board be resident in Bahrain should be limited to companies operating in Bahrain only. A waiver should be provided for companies that operate under a regional set-up in order to allow them to place such functions/positions at the most appropriate location from a business perspective.</p>	SP7	<p>Controlled functions of CBB licensees must be resident in Bahrain.</p> <p>A guidance paragraph has been added to deal with regional groups.</p>
<p>AU-2.3.1 <u>Licensees</u> must satisfy the CBB that their <u>controllers</u> are suitable and pose no undue risks to the licensee. <u>Licensees</u> must also satisfy the CBB that their <u>close links</u> do not prevent the effective supervision of the <u>licensee</u> by the CBB and otherwise pose no undue risks to the <u>licensee</u>.</p>	<p>A licensee requested the CBB to clarify what they intend by undue risk. Any risk arising from professional misconduct of a controller is inherent to the business. Such risk is mitigated by having appropriate risk management framework, which includes comprehensive policy and procedures. All the controllers are subject to authority limits approved and periodically monitored by the Board of Directors. In absence of clarity, implementing the rule will be subject to diverse interpretation by the licensees.</p>	SP8	<p>No change.</p> <p>Undue risk simply refers to a risk that is not ordinary.</p>
<p>AU-2.3.4 A <u>licensee</u> has <u>close links</u> with its subsidiaries, with its parent undertakings, and with subsidiaries of its parent undertakings. It also has <u>close links</u> with any entity in which the <u>licensee</u>, its subsidiaries, its parent</p>	<p>A licensee noted that the consolidated financial statement prepared in compliance with the International Financial Reporting Standards (“the IFRS”), which include segmental reporting (separate Income Statement and Balance Sheet of all subsidiaries), and audited by reputable audit</p>	SP9	<p>Consolidated supervision is a different concept from consolidated financial statements, and is much broader in the role that is required by the supervisory authority to meet its objectives as outlined in the CBB Law.</p>

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<p>undertakings, and the subsidiaries of its parent undertakings has an equity interest of more than 20% (either in terms of capital or voting rights). The CBB seeks to ensure that these closely linked entities do not prevent adequate consolidated supervision being applied to financial entities within the group, and that other group entities do not pose any material financial, reputational or other risks to the <u>licensee</u>.</p>	<p>firms will effectively ensure the CBB consolidated supervision without need for submission of subsidiaries separate financial statements. Also, the group management letter addresses auditors all the concerns on the quality and effectiveness of checks and balances applied by the management over all the group companies. The additional requirements will not only be duplication of current requirements of submitting the consolidated information, but the CBB may also not want to get into supervising other businesses of the licensees which are not regulated by the Bank.</p>		
<p>AU-4.3.4 For existing <u>licensees</u> applying for the appointment of a <u>Director</u> or the <u>Chief Executive/General Manager</u>, the Authorised Representative should be the Chairman of the Board or a <u>Director</u> signing on behalf of the Board. For all other controlled functions, the Authorised Representative should be a <u>Director</u> or the <u>Chief Executive/General Manager</u>.</p>	<p>A licensee noted that the requirement should be re-worded to allow any authorized representative of the licensee to apply to CBB for the appointment of any controlled function.</p>	<p>SP10</p>	<p>Guidance has been amended as follows: For existing <u>licensees</u> applying for the appointment of any <u>controlled functions</u>, the authorised representative should be a duly authorised representative of the <u>licensee</u> and must submit with Form 3: Application for Approved Person Status, internal documentary evidence supporting the appointment of the duly authorised representative of the <u>licensee</u>.</p>
<p>AU-4.5.7 <u>Licensees</u> must promptly notify the CBB in writing when a person undertaking a <u>controlled function</u> will no longer be carrying out that function. If a <u>controlled function</u> falls vacant,</p>	<p>A licensee noted that the requirement should expressly state that in case the permanent replacement cannot be appointed within 120 calendar days of the vacancy occurring, the licensee should write to CBB to obtain an extension.</p>	<p>SP11</p>	<p>The paragraph states that licensees have 120 calendar days to appoint a permanent controlled function with no extension. The period of 120 days is ample time for a replacement to be found. Within these 120 days, licensees have to make interim</p>

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<p>the <u>licensee</u> must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the <u>licensee</u> must make immediate interim arrangements to ensure continuity of the duties and responsibilities of the <u>controlled function</u> affected. These interim arrangements must be approved by the CBB.</p>		<p>arrangement to ensure continuity of the function's duties, in which this arrangement must be approved by the CBB.</p>
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Reference to the draft Directive:	Comments	REF	CBB's Response
<p>BR-1.1.2 (b) In addition to the statements required in Paragraph BR-1.1.1, <u>licensees</u> are required to submit to the CBB the following information within 3 months of their financial year end: (a) The external auditor's management letter; (b) Audited financial statements of all subsidiaries (whether or not consolidated) along with their management letters;</p>	<p>A licensee noted that the submission of audited financial statements for all subsidiaries along with management letters by 31 March of the following year is not practical for the licensee. It is recommended that the timeline for this submission in the draft regulations be extended to 30 June of the following year or an extension granted for the licensee.</p>	<p>SP12</p>	<p>3 months subsequent to year end is considered an adequate period to provide audited financial statements.</p>
<p>BR-1.1.3 In accordance with the provisions of Section AA-4.1, the audited financial statements and the annual reports of the <u>licensees</u> must be in full compliance with: (a) The International Financial Reporting Standards (IFRS); (b) AAOIFI Financial Accounting Standards for Sharia Compliant Financing Companies and for products and activities not covered by AAOIFI, International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) must be followed; and (c) The disclosure requirements set out under Sections PD-1.2, PD-1.3</p>	<p>An audit firm suggested inserting “or” between (a) and (b) as a licensee prepares its financial statements either in IFRS or AAOIFI.</p>	<p>SP13</p>	<p>Agreed to amend.</p>

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and PD-1.4.			
<p>BR-1.4.2 All <u>licensees</u> are required to submit to the CBB their exposures to connected parties on a monthly basis on the fourth working day of the month.</p> <p>BR-1.4.3 For instructions relating to the reporting required as per Paragraph BR-1.4.2, reference should be made to Appendix BR-8 and for the concerned reporting forms refer to Appendix BR-7, found under Part B of Volume 5.</p>	<p>A licensee noted that the requirement for monthly submissions of connected party exposures is too onerous. Instead, it is recommended that such submissions be required on semi-annual basis to bring it in line with the requirement to submit semi-annual financial statements.</p>	SP14	<p>Disagree –The requirement will remain on a monthly basis.</p>
<p><i>Promotional Schemes</i> BR-2.2.18 Licensees must notify the CBB, and send copies of the documentation relating to promotional schemes, at least ten business days prior to their launch, after ensuring that such promotional schemes are in line with the Rules under Section BC-1.</p> <p><i>Introduction of New or Expanded Customer Products and Facilities</i> BR-2.2.19 All licensees should notify the CBB of information relating to any new or expanded customer products and facilities in accordance with the requirements set out under Section</p>	<p>A licensee noted that the requirements to send copies of documentation relating to promotional schemes to CBB and to notify CBB of information relating to any new or expanded customer products and facilities should only apply to promotional schemes and products/ facilities to be launched/ introduced ‘within Bahrain’. The regulations should be amended accordingly to clearly state the above.</p> <p>A licensee noted that such a requirement, relating to the notification of promotional schemes to the CBB 10 business days in advance, will reduce the efficiency of the business. Therefore, it is requested that such requirements be limited to</p>	<p>SP15</p> <p>SP16</p>	<p>The requirement is concerned with any promotional scheme/products or facilities that will be launched by the licensees to customers, either in or outside Bahrain. In case of the licensee, the rule is concerned with any promotional scheme that will be launched by the licensee (Middle East), the company incorporated in Bahrain, where the home regulator, the CBB has to be notified.</p> <p>Disagree- 10 business days is an adequate time for the CBB to review the products/facilities before being launched.</p>

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<p>BC-3.2.</p>	<p>introduction of new promotional schemes for new products.</p> <p>A licensee noted that it is advisable to state the definition or example explaining the meaning of “expanded customer products and facilities in BR-2.2.19, since the statement is vague.</p>	<p>SP17</p>	<p>Details of this requirement will be, as included in the rules, in BC Module, which is not yet published for consultation.</p>
<p>BR-2.3.11 Licensees should obtain the CBB’s prior written approval before writing off any of the following exposures:</p> <p>(f) To any person who is a director, manager or officer of another licensee of the CBB.</p>	<p>A licensee noted that this rule is relatively not practical.</p> <p>Explanation by the licensee: As per the CBB FC module, the licensees are required to obtain the KYC documentation prior to establishment of the relationship with customers, thereafter; the licensees are required to obtain an updated customer record at least every three years. However, complying with this requirement does not mean that the licensees will be in possession of an updated customer records at all times as the customer might change his/her current job immediately after being approved as a customer in the Financing Company. Accordingly, it is very much possible that the person who is as per the Financing Company’s record is working with the CBB’s licensee is indeed left his job, the contrary is also true.</p> <p>In addition, it is impractical to request the “write-off customers” to provide evidences indicating their current work place at the write-off stage as it is experienced that most of them are not</p>	<p>SP18</p>	<p>Disagree. No change to be made.</p>

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	cooperative at this level. Applying it therefore will only increase administrative work and will lay down a compliance obstacle that will result in further delays in reflecting the true and fair picture of the customer financial position of these customers and the financial institution.		
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Reference to the draft Directive:	Comments	REF	CBB's Response
<p>HC-A.1.8, HC-1.2.9, HC-1.2.12, HC-1.2.13, HC-1.4.3, HC-1.4.4, HC-1.4.5, HC-3.2.1, HC-4.2.2, HC-5.3.1, HC-1.9.1, HC-2.3.2, HC-2.5.1, HC-4.2.1, HC-4.4.1, HC-4.5.1, HC-5.2.1, HC-8.2.1</p>	<p>A licensee noted that considering CBB is comfortable with the licensee's corporate governance and related disclosure processes/practices which have been discussed in meetings and shared earlier with CBB via letters, they have no comments. However, if CBB wishes, it may incorporate the related processes/ practices within the draft regulations.</p>	<p>SP19</p>	<p>Noted. CBB replied to the licensee and noted that the CBB cannot accede to its request for an exemption from compliance with the disclosure requirements contained in Module HC.</p>
<p>HC-1.3.12 No Board member may have a directorship in both a financing company and a retail bank. Licensees may approach the CBB for exemption from this limit where the directorships concern licensees or financial institutions within the same group.</p>	<p>A licensee noted that the draft regulation should be amended to clearly state that no Board member may have a directorship in both a financing company and a retail bank 'inside Bahrain'.</p> <p>A licensee noted that this directorship limitation shall not be applicable if the shareholder who own shares in both financing company and retail bank has opted to appoint the same director in both companies.</p> <p>A licensee noted that this rule is not practical as directors commonly have more than one directorship in several banks and financial institutions. It is suggested changing the paragraph to the following: <i>"No Board member may have more than one Directorship of Financing Company with a cap of maximum of two Directorships of financing companies and retail or wholesale banks inside</i></p>	<p>SP20</p> <p>SP21</p> <p>SP22</p>	<p>The Rule was amended to specify that it applies only to directorships inside Bahrain.</p> <p>The first sentence of this Rule has been amended as follows: No Board member may have a directorship in two <u>financing companies</u> in Bahrain.</p>

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	<i>Bahrain. Two Directorships of licensees within the same category are not permitted. Licensees may approach the CBB for exemption from this limit where the directorships concern licensees or financial institutions within the same group”.</i>		
HC-1.3.13 One person should not hold more than three directorships in public companies in Bahrain with the provision that no conflict of interest may exist, and the Board should not propose the election or reelection of any <u>director</u> who does.	A licensee noted that although this is guidance and not a rule which requires “comply or explain” statement, there is no harm of being a director at more than three listed companies taking into consideration that there is no conflict of interest..	SP23	This is as per the CBB Code and subject to the comply or explain approach.
HC-1.4.4 Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment. At a minimum, all financing companies must appoint one independent director. HC-1.4.5 At least half of a licensee’s board should be non-executive directors and at least three of those persons should be independent directors. (Note the exception for controlled companies in Paragraph HC-1.5.2.)	A licensee noted that that the rule (HC-1.4.4) and the guidance (HC-1.4.5) are not consistent as the rule requires the financing company to maintain at least One Independent Director while the guideline refers that the financing companies shall maintain at least Three independent directors. Accordingly, either the rule or the guidance should be revisited or otherwise further clarification provided to avoid any misunderstanding.	SP24	Agree- the two paragraphs must be consistent in the requirement of a minimum of independent directors. The last sentence in HC-1.4.4 has been deleted.
HC-1.4.6 The chairman of the board should be an independent director, so that there	A licensee noted that fully owned subsidiaries (i.e. subsidiaries owned by a single shareholder) shall be exempted from this requirement.	SP25	This is guidance and subject to the comply or explain approach. No change to be made.

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<p>will be an appropriate balance of power and greater capacity of the board for independent decision making.</p>			
<p>HC-1.4.8 The Chairman must not be an Executive Director</p>	<p>A licensee noted that fully owned subsidiaries (i.e. subsidiaries owned by a single shareholder) shall be exempted from this requirement.</p>	<p>SP26</p>	<p>A guidance paragraph has been added as follows: Where the Chairmanship concerns <u>licensees</u> within the same group, <u>licensees</u> may approach the CBB for an exemption from Paragraph HC-1.4.8</p>
<p>HC-1.4.10 To facilitate free and open communication among independent directors, each board meeting should be preceded or followed with a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves.</p>	<p>A licensee noted that since all directors have equal fiduciary responsibilities, such a requirement may be construed by directors as a call for different seniority levels within the board and eventually lead to division and conflict within the board of directors. This arrangement will also raise practical issues like controlling certain information shared among independent and non-independent board members like minutes of their meetings. The CBB is requested to reconsider its requirements of this clause from the proposed rule book.</p>	<p>SP27</p>	<p>Disagree- the role and input of independent directors can differ from other board directors, therefore, the requirement for the “independent directors session” is essential.</p>
<p>HC-3.2.1 The board must establish an audit committee of at least three directors of which the majority must be independent including the Chairman. The committee must: (a) Review the licensee’s accounting and financial practices; (b) Review the integrity of the licensee’s financial and internal controls and financial statements</p>	<p>A licensee noted that the given it is a privately held company and considering its set-up and previous communications with CBB on governance related matters, the requirement for having 3 members on the Audit Committee should be waived in their instance. Else the draft regulations should be amended to align with a private company set-up.</p>	<p>SP28</p>	<p>No change Having 3 audit committee members is essential and the rules are not different for privately held financial institutions.</p>

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<p>(particularly with reference to information passed to the Board - see HC-1.2.10). The information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee;</p> <p>(c) Review the licensee's compliance with legal requirements;</p> <p>(d) Recommend the appointment, compensation and oversight of the licensee's external auditor; and</p> <p>(e) Recommend the appointment of the internal auditor.</p>			
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Reference to the draft Directive:	Comments	REF	CBB's Response
<p>AA-1.1.1 Specialised licensees must obtain prior written approval from the CBB before appointing or re-appointing their auditor.</p> <p>AA-1.1.2 As the appointment of auditors normally takes place during the course of the firm's annual general meeting, specialised licensees should notify the CBB of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The CBB's approval of the proposed auditors does not limit in any way shareholders' rights to subsequently reject the Board's choice.</p>	<p>A licensee noted that the requirement to obtain 'prior written approval' from CBB before appointment/ re-appointment of external auditors should be removed. Instead, the regulation should be worded to state that licensees should notify CBB of the proposed agenda for the Annual General Meeting (AGM), which should include appointment/re-appointment of auditors as an agenda item. CBB retains the right to reject the appointment/ re-appointment at the AGM.</p>	<p>SP29</p>	<p>Disagree- This is a requirement under Article 61 (a) of the CBB Law.</p>
<p>AA-1.3.2 For purposes of Paragraph AA-1.3.1, the first five-year period referred to is for the period ending 31 December 2010.</p>	<p>An audit firm inquired if the date should be "31 December 2012" and not "2010".</p>	<p>SP30</p>	<p>This paragraph has been deleted as the period varies depending on when the license was issued and financing companies have been subject to these requirements under Volumes 1 and 2, issued in 2005.</p>
<p>Financial Transactions with Auditors AA-1.5.1 Specialised licensees must not provide regulated services to their auditor.</p>	<p>A licensee noted that the referenced requirement should not apply to corporate cards issued to the specialized licensees' auditors. Such cards are not issued to the auditors in their personal capacity and are instead positioned as an expense</p>	<p>SP31</p>	<p>This requirement applies to services rendered either on a personal or corporate basis. No change.</p>

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	management solution for the concerned corporate entity.		
<p>Outsourcing to Auditors AA-1.5.2 Specialised licensees may not outsource their internal audit function to the same firm that acts as their (external) auditor.</p>	Au audit firm inquired if no exemptions will be allowed for short-term emergency outsourcing.	SP32	Internal audit cannot be performed by external auditors of the licensee; otherwise, a conflict of interest arises. No change
<p>AA-3.1.1 Specialised licensees, other than money changers and administrators, must arrange for their auditor to review the licensee’s Quarterly Prudential Return to the CBB prior to its submission, unless otherwise exempted in writing by CBB. The auditor must complete the prescribed form attesting to its review, which must be attached to the Quarterly Prudential Return.</p> <p>AA-3.1.2 Specialised licensees are required to submit a Quarterly Prudential Return (QPR). Specialised licensees may apply in writing to CBB for an exemption from the requirement that the QPR be reviewed by the licensee’s external auditor: this exemption would normally only be given where the licensee had established a track record of accurate and timely reporting, and there were no</p>	<p>A licensee noted that AA-3.1.1 requires that PIR to be reviewed by the external auditors before it is submitted to the CBB which is not practical as the deadline for submitting such report is within 20 calendar days at the end of each quarter (BR-1.2.2: The PIR forms referred to under Paragraph BR-1.2.1 must be submitted to the CBB on a quarterly basis within 20 calendar days of the end of the reporting date).</p> <p>Also, AA-3.1.1 contradicts with rule BR-1.2.3 which gives financing companies two months period to enable its external auditors to review and submit the PIR.</p> <p>It is suggested that AA-3.1.1 be modified to the following: “Specialised licensees, other than financing companies, money changers and administrators, must arrange for their auditor to review the licensees’ Quarterly Prudential Return to the CBB prior to its submission, unless otherwise exempted in writing by CBB the auditor must complete the prescribed form attesting to its review, which</p>	<p>SP33</p> <p>SP34</p>	<p>Disagree- it is required that PIR Form be reviewed by the licensee’s external auditor, unless exempted by the CBB as under AA-3.1.2.</p> <p>Disagree- AA-3.1.1 is related to PIR, while BR-1.2.3 is related to Financial Statements, therefore, there is no contradiction.</p>

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<p>other supervisory issues of concern. Further details on the CBB’s reporting and related requirements, including the precise scope of the auditor’s review and attestation, will be contained in Module BR (CBB Reporting).</p>	<p>must be attached to the Quarterly Prudential Return.”</p> <p>An audit firm inquired that shouldn’t money changers also be subject to this requirement.</p>	<p>SP35</p>	<p>Disagree - The type of operations is less in Money Changers than in financing companies in the volume and cost.</p>
<p>AA-3.2.1 Specialised licensees that are required to publish financial disclosures in accordance with Chapters PD-2 and PD-3 must arrange for their external auditor to review these prior to their publication, unless otherwise exempted in writing by the CBB.</p>	<p>An audit firm noted that:</p> <ol style="list-style-type: none"> Time frame for submission not specified; Suggest specify whether this is a semi-annual or annual requirement or both; and Suggest specify whether this is applicable for local or overseas or both. 	<p>SP36</p>	<p>Noted, it is further explained in Module PD which will be issued for consultation in the future..</p>
<p>AA-3.3 Report on Compliance with Financial Crime Rules</p>	<p>An audit firm inquired that should there be a mention of equivalent provisions of AU-3.5.1 (of Volume 1) regarding communication of material difference?</p> <p>“Conventional bank licensees must arrange for their external auditor to provide to the CBB explanations for any material differences in data reported in the bank’s audited or reviewed accounts and in the following reports provided to the CBB:</p> <ol style="list-style-type: none"> Prudential Information Returns (PIR); and Monthly Statements of Assets and Liabilities.” 	<p>SP37</p>	<p>Disagree- There is no need to add this requirement in Module AA as this is specific to financing companies and not all specialised licensees, i.e. not all specialised licensees must submit a PIR type of return. The requirement for financing companies will be addressed in Paragraph BR-1.3.3 as follows:</p> <p>The CBB requires all <u>licensees</u> to request their external auditor to conduct a review of the prudential return on a quarterly basis. The results of such</p>

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			review (in the form of an Agreed Upon Procedures report as shown in Appendix BR-6) must be submitted to the CBB’s relevant supervision Directorate no later than 2 months from the end of the subject quarter.
<p>AA-3.3.1 Specialised licensees must arrange for their external auditor to report on the licensee’s compliance with the requirements contained in Module FC (Financial Crime), at least once a year. r.</p>	<p>A licensee noted that CBB could consider financing companies such as itself with restricted business model to be exempted from external auditors reporting.</p> <p>Alternatively, compliance requirements for it should be different from money changers under this category.</p>	<p>SP38</p> <p>SP39</p>	<p>Disagree- All financing companies must comply with the requirement of the paragraph AU-3.3.1.</p> <p>While developing the “Specialized Licensees” common and specific modules, the CBB already considered the different business nature of licensees.</p> <p>This whole section was deleted from Module AA in October 2012 to reflect the fact that such review may now be conducted by a CBB approved consultant as per Module FC</p>

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Reference to the draft Directive:	Comments	REF	CBB's Response
FC-B.2 Overseas Subsidiaries and Branches	An audit firm inquired that should overseas joint venture be also covered in this section.	SP40	No. Joint ventures are not covered under this Section..
FC-1.1.2 Licensees must implement the customer due diligence measures outlined in Chapters 1, 2 and 3 when: (a) Carrying-out one-off or occasional transactions above BD 6,000, or where several smaller transactions that appear to be linked fall above this threshold (particularly relevant for money changers – see FC-1.9 for cash courier business);	An audit firm inquired that should there be a lower threshold (than BD6,000) given the nature of business.	SP41	No. The CBB does not believe this is needed.
Verification of Third Parties FC-1.1.6 Licensees must obtain a signed statement from all new customers (or for one-off transactions above the BD 6, 000 threshold for moneychangers) confirming whether or not the customer is acting on their own behalf or not. This undertaking must be obtained prior to conducting any transactions with the customer concerned.	An audit firm inquired that should there be a lower threshold (than BD6, 000) given the nature of business.	SP42	Please refer to SP41.
FC-1.2.1 If the customer is a natural person, licensees must obtain and record the following information (in hard copy or electronic form), before providing	A licensee suggested for subparagraphs (e) & (f) including the driving license as a second ID with the passport or CPR/ residence permit number. An audit firm inquired that for subparagraph (g)	SP43 SP44	There is no need for the CBB to specify this as it is a mean by which licensees can perform their own due diligence.

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<p>financial services as described in Paragraph FC-1.1.2: (e) Passport number (if the customer is a passport holder); (f) CPR or residence permit number (for residents of Bahrain or GCC states); (g) Telephone/fax number and email address (where applicable);</p>	<p>and FC-1.2.7 (g) should the licensee be also required to obtain proof of telephone number (copy of recent telephone bill etc.)</p>		
<p>FC-1.2.3 Licensees must verify the information in Paragraph FC-1.2.1 (a) to (f), by the following methods below; at least one of the copies of the identification documents mentioned in (a) and (b) below must include a clear photograph of the customer: (a) Confirmation of the date of birth and legal name, by taking a copy of a current valid official original identification document (e.g. birth certificate, passport, CPR or residence permit number); (b) Confirmation of the permanent residential address by taking a copy of a recent utility bill, bank statement or similar statement from another licensee or financial institution, or some form of official correspondence or official documentation card, such as CPR, from a public/governmental authority, or a tenancy agreement or record of home visit by an official of the licensee (see also Guidance</p>	<p>An audit firm suggested for subparagraph (b) to provide reference to the relevant section where these guidance notes are available.</p>	<p>SP45</p>	<p>Reference is to Module FC, Appendix – (v) Guidance Notes has been added to the subparagraph.</p>

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<p>Notes for transactions with tourists); and (c) Where appropriate, direct contact with the customer by phone, letter or email to confirm relevant information, such as residential address information.</p>			
<p>FC-1.6.3 Money changers must provide a monthly report of all payments and transfers of BD3, 000 (or equivalent in foreign currencies) and above performed on behalf of charities registered in Bahrain. The report must be submitted to the CBB’s Compliance Directorate (see Section FC-5.3 for contact address), giving details of the amount transferred, name of charity, number and beneficiary name account and bank details. Licensees must ensure that such transfers are in accordance with the spending plans of the charity (in terms of amount, recipient and country).</p>	<p>An audit firm suggested specifying how this is to be ensured by the licensee.</p>	<p>SP46</p>	<p>To ensure that the transfer is according to the spending plans of the charity, it is sufficient to get the transaction advice from an authorized signatory.</p>
<p>FC-1.9.2 Cash amounts equal to and above the BD6,000 (or its equivalent in foreign currency) threshold coming into Bahrain via courier (whether a representative of a Bahrain money changer or a foreign institution) must be accompanied by original documentation stating the source of funds and identity of the originator of</p>	<p>A licensee noted that sentence should be corrected to include “<i>amount equal to and above BD 6,000 (or its equivalent in foreign currency)</i>”</p>	<p>SP47</p>	<p>Disagree-This paragraph is related basically to the handling of cash.</p>

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<p>the funds. Furthermore, the documentation must state the full name and address of the beneficiary of the funds. This documentation must be signed in original by (a representative) of the originator of the cash. This means that where a courier is importing cash amounts above BD6,000 via any customs point of entry (e.g. via the Causeway or the Airport), the aforementioned courier must carry original documentation which clearly shows the source of funds and identity of the originator of the funds and the intended beneficiaries" names and address.</p>			
<p>FC-1.10.1 Licensees may apply simplified customer due diligence measures, as described in Paragraphs FC-1.10.2 to FC-1.10.6, if: (a) The transaction is a one-off or occasional transaction not exceeding BD 6,000 (or equivalent in other currencies), or one of a number of transactions which are related and, when taken together, do not exceed BD 6,000 per year (or equivalent in other currencies); (b) The transaction is a wire transfer below the equivalent of US\$1000;</p>	<p>An audit firm inquired that for subparagraph (b), should the same threshold be applied to money changers and others.</p>	<p>SP48</p>	<p>Yes, the paragraph does not distinguish between licensees.</p>