

CBB Prior Approval of Writing Off Exposures For Conventional Retail Banks

Industry Comments and Feedback

Volume 1

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Industry Comments		
General Comments:	Ref	CBB's Response
<p>A Bank noted that they are comfortable in complying with the proposed rules that Banks have to inform CBB prior to writing off any credit exposure of its own:</p> <ol style="list-style-type: none"> i. Approved persons (present or former), ii. Exposure guaranteed by an Approved person of the bank, iii. Exposure to other Connected counterparties of the bank, and iv. Exposure to a related party of the bank. <p>As they we will also hold the above information.</p> <p>However, the proposed rules also require the Banks to seek CBB approval when writing off credit exposure of Other CBB Licensees:</p> <ol style="list-style-type: none"> i. Approved persons (present or former), ii. Exposure guaranteed by an Approved person of other licensee, iii. Exposure to any Controller of another CBB licensee. <p>Currently, they will not be having access to details to identify the Approved Persons and Controllers of other licensees. As such they will not be in a position to meet this requirement.</p> <p>Therefore, they recommend that the rules are restricted to seeking CBB approval prior to writing off any credit exposure of the relevant licensees own Approved persons, Connected Counterparties or related party.</p>	GR1	<ul style="list-style-type: none"> • The list of approved persons and controllers of CBB licensees is available on the CBB website through the Institutional information System (IIS). Therefore, bank can regularly check the information on such persons. • The rule has been amended to restrict the requirement to only current approved persons of the bank. The list of all present approved persons and controllers is made available on the CBB website through the IIS. Such information is required from all banks to be updated regularly as per the rules in Module BR (CBB Reporting) of the CBB Rulebook . • Exposures to approved persons, or exposures which are guaranteed by an approved person of “any other CBB licensee”, has been deleted.
<p>A Bank offers two types of residential mortgage loans, Social and top up, unsubsidized loans (commercial loans).</p> <p>Approvals of transactions pertaining to social loans are granted differently when compared to top up, unsubsidized loans. In the case of social loans, BOTH the decision</p>	GR2	Agreed

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<p>for extending the loan AS WELL AS for writing off of the loan, is taken by the Ministry of Housing (MOH), and the Bank, as administrator in this case, ONLY executes the terms of the MOH approval, as and when received from it. Furthermore, the write off request is directly made by the beneficiary/customer to the MOH (i.e., not through the Bank), and the Bank does not make any recommendations on the same (i.e., the Bank is not part of the decision making process in case of social loans).</p> <p>Accordingly, the Bank’s understanding regards compliance with the proposed write off procedure is as follows:</p> <ul style="list-style-type: none"> • Top up, unsubsidized loan exposures (retail & non-retail, if any): The Bank will report/seek prior approval of CBB as contemplated in the Consultative Paper. • Social Loans: The Bank will continue with the existing procedure of giving effect to write off based on approval given by the MOH (i.e., prior approval requirements by CBB will not be applicable in such cases). <p>The Bank requests CBB confirmation of their understanding and/or CBB’s further directions in this regard should we feel a modification to the above is needed.”</p>		
<p>A Bank noted the proposed changes to Paragraph CM-7.1.3 of Volume 1 of the CBB rulebook (concerning the CBB’s prior approval requirements for writing off exposures), and confirm their acceptance for the same.</p>	GR3	Noted
<p>A Bank noted that as per the requirements, an approved person (directors and senior management whose appointment is approved by CBB) should be considered to have a “personal interest” in a transaction with a company if he himself; or a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or another company of which he is a director or controller, is a party to the transaction or has a material financial interest in the transaction. Transactions and interests which are minimal in value should not be included. The Bank feels that CBB should include a materiality</p>	GR4	<ul style="list-style-type: none"> • The CBB will not set a minimum materiality threshold as the objective of the rule under consultation is to assess the credit-worthiness of specific categories of exposures that are linked in some way to a CBB licensee (either as an approved person, controller or connected

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<p>threshold.</p>		<p>counterparty).Therefore, the rule applies to all exposures regardless of the amount of the credit facility being written off.</p> <ul style="list-style-type: none">• There is an existing rule in Volumes 1 & 2 which states that “All locally incorporated banks must notify the CBB of any write-off of a credit facility, (i.e., loan, overdraft and any other credit facility)/ (i.e. Murabaha or any other credit facility) of an amount in excess of BD 100,000, or its equivalent in foreign currency.” This paragraph applies to all exposures.
<p>A Bank noted the following:</p> <ol style="list-style-type: none">1. The Bank’s Consumer facilities are written off automatically by the system based on pre-defined days past due triggers which are in line with the Global Policy issued by the Bank’s head office. It is 120 days past due for Loans and 180 days past due for cards. Thus in order to comply with the CBB requirement of ‘prior approval’ we will have to seek approval for customers who may have missed three or four monthly payments so that we have CBB approval prior to the system trigger that will take the facility into a write off.2. Even if the information about approved persons, connected parties and controllers of CBB licensees is made available, since this information is not captured in our systems or may be out of date i.e. credit card was issued to the person when he or she where at a lower level than the approved person’s level, this tracking will be a manual process and as such the requirement of an approval prior to write off of the consumer facility is difficult to comply with given the automatic write off by the system as described in point # 1.	GR5	<p>The rule has been changed by requiring banks to obtain CBB’s “written no-objection” instead of “written approval” before writing off the exposures listed in the rule.</p>

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Specific Comments:			
Reference to the draft Directive:	Comments	REF	CBB's Response
CM-7.1.3 Banks must also obtain the CBB's prior written approval before writing off any of the following: (a) Exposures to any present or former approved person of the bank or any other CBB licensee.	<p>A Bank noted that it will be difficult for banks to identify whether the customer (whose write off proposal is under consideration) has been an "approved person" of any CBB licensee at any time in the past as such information is not readily available.</p> <p>Therefore, they suggest that clause (a) be amended to state: 'exposures to any person who is:</p> <ul style="list-style-type: none"> i. a present or former approved person of the bank, or ii. an approved person of any other CBB licensee, or <p>was an approved person of any other CBB licensee within the previous 12 months'.</p>	SP1	The rule has been amended to restrict the requirement to only current approved persons of the bank. The list of all present approved persons and controllers is made available on the CBB website through the IIS. Such information is required from all banks to be updated regularly as per the rules in Module BR (CBB Reporting) of the CBB Rulebook.
	<p>A Bank noted the following:</p> <p>(1) The CBB should provide on its website a list of approved persons of its licensees. Otherwise, it will be very burdensome for banks to keep track of this information for more than 400 CBB's licensees in order to comply with this rule.</p>	SP2	(1) See GR1.

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	<p>(2) For <u>former</u> approved persons (of the same bank), there should be a time frame. The current officers of a bank might not be aware of all the prior approved persons (for example, those who were in charge 10 or 20 years ago).</p>		<p>(2) See SP1</p>
	<p>A Financing Company noted that in relation to seeking CBB prior approval before writing off any exposure to present and former approved person of other CBB licensees, it will be difficult to identify present and former approved person of other CBB licensees unless the CBB circulates such list to all licensees and any updates thereafter.</p>	<p>SP3</p>	<p>See GR1.</p>
	<p>A Bank requested CBB to provide further clarification in respect to the following:</p> <p>a. Number of years Banks should go back for formerly approved persons?</p> <p>b. Information on approved persons of other CBB licensees may not be readily available. Also, if during KYC documentation, the relationship with a CBB licensee is not declared by a customer, then the Bank should not be held liable.</p> <p>c. The scope covering approved persons, present and former, of all CBB licensees may be too large and would be extremely difficult to</p>	<p>SP4</p>	<p>a. See SP1.</p> <p>b. See GR1.</p> <p>c. See GR1.</p>

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	<p>ensure compliance with, as it would involve not only banks but other types of licensees. For non-listed entities, full disclosure of such details is not guaranteed.</p> <p>d. Information on relationships/business engagements for former approved persons and approved persons of other CBB licensees may not be available, adequately disclosed or may be very difficult to acquire. Therefore, compliance would be difficult and may not be ensured at all times.</p>		<p>d. See GR1.</p>
	<p>A Bank noted that any information about ‘Approved’ persons of other CBB licensees is not available to the Bank. Will CBB make available such a list of approved persons (with their CPR) in order to ensure that financial institutions are able to comply with the directive?</p>	<p>SP5</p>	<p>See GR1.</p>
	<p>A Financing Company noted that it is believed that obtaining the CBB prior approval for writing off exposures to any present or former approved person of the licensee is doable. However, they would like bring to the CBB’s kind attention that it is difficult and impractical to obtain the CBB’s prior approval for writing off exposures to approved persons of other CBB’s licensees as the information related to whether the customer is an approved person or not is changing and could not be established with certainty i.e. the customer might change his place of work or his position and</p>	<p>SP6</p>	<p>See GR1.</p>

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	<p>become an approved or a non-approved person subsequent to the establishment of the relationship with licensee and hence, the information available with the licensee will not be accurate in these instances. In addition, requesting the customers to declare whether they are an approved persons or not will require the licensees to verify the information provided by the customers through requesting supporting documents, this might add additional burden on the customers which will in turn affect the speed of decision making and writing off the exposure that will have an impact on the business in general.</p>		
	<p>A Bank noted that they are in favor of the proposed guidelines. However, they believe that it would be in order if the Banks have access to some kind of database which provides the names of approved persons, both present and former as well as names of Controllers of all CBB licensees. This will help the Banks to conduct sufficient due diligence in the initial stage itself before a relationship is established. In the absence of such database it would be difficult for the Banks to ascertain whether the person is an approved person (present or former) or a controller in which cases Banks may have to purely rely on a self-declaration from the concerned person. They therefore request the CBB to consider this suggestion.</p>	SP7	See GR1.

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(b) Exposures which are guaranteed by an approved person of the bank or any other CBB licensee.	A Bank noted the same comment as SP2 (1).	SP8	See GR1.
	A Bank noted same comments as SP4.	SP9	See SP1 and GR1.
	A Bank noted that the same restriction mentioned above in SP5 also applies to clause (b) whereby they need the list of approved persons of other banks in order to be able to track if such persons have provided guarantees on any credit facilities.	SP10	See GR1.
	A Financing Company noted the same comment as SP6.	SP11	See GR1.
(c) Exposure to any other connected counterparties to the bank (as defined in CM-5.5.9).	A Bank noted that any information about 'Connected Parties' of other CBB licensees is not available to Citibank. Will CBB make available such a list of controllers of other banks (with their CPR) in order to ensure that financial institutions are able to comply with the directive?	SP12	See GR1.
	A Financing Company noted that it is also believed that it is impractical to apply the same concept to the counterparties and controllers due to the nature of the dynamics of the market and the ongoing changes of shareholding ownership structure which are primarily resulted from the mergers and acquisition of the companies.	SP13	See GR1.

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<p>(d) Exposures to any business entity for which the bank or any of its approved persons is a related party such as a board member, a shareholder owning 5% or more, a manager, a guarantor, etc.</p>	<p>A Bank inquired about the definition of Manager under item ‘d’? Also clear criteria for ‘related party’ should be provided.</p>	SP14	<p>The word “manager” has been changed to “a person assuming a managerial role” and examples of “related party” are already given in the rule. The bank can approach the CBB if they are not sure when the bank or any of its approved persons is a related party to any business entity or not.</p>
	<p>A Bank suggested that CBB should provide a complete definition of “related party”.</p>	SP15	<p>See comment on “related party” in SP14.</p>
<p>(e) Exposures to any Controllers of another CBB licensee (as defined in GR-5.2 – Definition of Controller).</p>	<p>A Bank noted that the CBB should provide on its website a list of controllers of its licensees. Otherwise, it will be very burdensome for banks to keep track of this information for more than 400 CBB’s licensees in order to comply with this rule. Moreover, this information might not be readily available in the public domain.</p>	SP16	<p>See GR1.</p>
	<p>A Bank noted that any information about ‘Controllers’ of other CBB licensees is not available to Citibank. Will CBB make available such a list of controllers of other banks (with their CPR) in order to ensure that financial institutions are able to comply with the directive?</p>	SP17	<p>See GR1.</p>
	<p>A Financing Company noted the same comment as SP12 regarding Controllers.</p>	SP18	<p>See GR1.</p>
	<p>A Bank noted the same comment as SP7 regarding Controllers.</p>	SP19	<p>See GR1.</p>

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General Comments:	Ref	CBB's Response
<p>A Bank noted that:</p> <ul style="list-style-type: none"> they highly recommend the CBB publish a list of all approved persons (present or past) of all CBB licensees on their website (<i>name of person, name of institution/licensee, job title/approved function, and dates from-to the person has qualified to be 'approved' by the CBB</i>), in which this will greatly assist the Banks/institutions in verifying whether the person is/or has been 'approved' and if the CBB approval of any write off is indeed required before such action is taken. In the absence of such a list, the bank may not be able to verify if the obligor is, or had been, an approved person based on its KYC due diligence and information disclosed by the borrower. And therefore the Bank/financial institution should not be liable or responsible for not seeking CBB's approval to write off the exposure. Not clear if the CBB approval is required if a person has at any stage of his/her career been an approved person with any institution or only with current employment. 	GR1	<ul style="list-style-type: none"> The list of approved persons and controllers of CBB licensees is available on the CBB website through the Institutional information System (IIS). Therefore, bank can regularly check the information on such persons. The rule has been amended to restrict the requirement to only current approved persons of the bank. The list of all present approved persons and controllers is made available on the CBB website through the IIS. Such information is required from all banks to be updated regularly as per the rules in Module BR (CBB Reporting) of the CBB Rulebook. Exposures to approved persons, or exposures which are guaranteed by an approved person of "any other CBB licensee", has been deleted.
<p>A Financing Company noted that there could be many instances (especially in the cards business) where accounts with low balances are written-off as a matter of procedure. It would be impractical to seek CBB's written approval for such non-material instances. Hence, they suggest a minimum materiality threshold (BD 10,000) to be defined for</p>	GR2	<ul style="list-style-type: none"> The CBB will not set a minimum materiality threshold as the objective of the rule under consultation is to assess the credit-worthiness of specific

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obtaining CBB's prior written approval before writing off an exposure.		<p>categories of exposures that are linked in some way to a CBB licensee (either as an approved person, controller or connected counterparty). Therefore, the rule applies to all exposures regardless of the amount of the credit facility being written off.</p> <ul style="list-style-type: none">• There is an existing rule in Volumes 1 & 2 which states that "All locally incorporated banks must notify the CBB of any write-off of a credit facility, (i.e., loan, overdraft and any other credit facility)/ (i.e. Murabaha or any other credit facility) of an amount in excess of BD 100,000, or its equivalent in foreign currency." This paragraph applies to all exposures.
A Bank requested, for purposes of clarity regarding the proposed rule, a meeting at the CBB's convenience to further discuss the specific issues mentioned and also discuss the scope of reporting within the Group given local central banks restrictions/regulations in different jurisdictions where the Bank is domiciled.	GR3	Banks may contact their supervisory point of contact to discuss any issues.
A Bank noted that currently such approvals are required for writing off exposures pertaining to the Board members of the banks only.	GR4	The bank needs to comply with the rules in CM-7.1.3.

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Specific Comments:			
Reference to the draft Directive:	Comments	REF	CBB's Response
<p>CM-7.1.3 Banks must also obtain the CBB's prior written approval before writing off any of the following:</p> <p>(a) Exposures to any present or former approved person of the bank or any other CBB licensee.</p>	<p>A Financing Company noted that they shall fulfill this requirement for present and former approved persons of their Middle East Branch, provided such exposures are above the minimum materiality threshold value stated above. However, it would be challenging to track the exposure of the current and former approved person of any other CBB licensee, as availability of such information will be subject to customer disclosure during on-boarding or subsequently till customer relationship lasts. Thus compliance with this requirement for present and approved persons of other CBB licensee is not viable.</p>	SP1	<p>See GR2 regarding the minimum materiality threshold.</p> <p>See GR1 regarding availability of information of current and former approved person of any other CBB licensee.</p>
	<p>A Bank noted that this can be a challenge to report. How does a bank ascertain who is an "approved person" and his "Connected Counterparty" in another CBB licensee – and even more challenging "a previous approved person"?</p>	SP2	See GR1.
	<p>A Bank noted that the main comment they have is with respect to practicality of the proposed change. CBB currently do not publish any consolidated list of current and prior approved persons of all its licensees. Hence it would not be possible for Banks to ascertain for sure whether a person is an approved person for CBB purposes or</p>	SP3	See GR1.

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	<p>not. Although Banks provide details of executive management in their annual reports and on their websites these may or may not be updated immediately - it would hence be difficult to establish the authenticity of such information and find out details of any approved persons outside the executive management teams. The same would be the case with Controllers of other CBB licensees.</p>		
	<p>A Bank suggested that it should be read as “Writing off of any exposure to any present approved person of the bank or any other CBB licensee requires CBB’s prior approval. (i.e., former approved person may be deleted)</p> <p>Rationale: Practically it will be very difficult for the bank to identify whether the individual was earlier approved person of CBB with some other financial institution, unless the “former approved person” himself/herself declares about his position.</p> <p>The bank which may write off the loans without the knowledge may have to face non-compliance of CBB guidelines.</p>	SP4	See GR1.
(c)Exposure to any other connected counterparties to the bank (as defined in CM-5.5.9).	<p>A Bank noted that this can be a challenge to report. How does a bank ascertain who is an “approved person” and his “Connected Counterparty” in another CBB licensee – and even more challenging “a previous approved</p>	SP5	See GR1.

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	person”?		
(d) Exposures to any business entity for which the bank or any of its approved persons is a related party such as a board member, a shareholder owning 5% or more, a manager, a guarantor, etc.	A Bank propose that paragraph (d) be amended to include shareholders’ holding 10% or more interest in the bank from the currently proposed 5% interest. This is in line with the definition of connected counterparties provided in CM 5.5.9.	SP6	Connected counterparties are already covered in paragraph (c). The currently proposed 5% interest refers to related parties. Examples of “related party” are already given in the rule.
(e) Exposures to any Controllers of another CBB licensee (as defined in GR-5.2 – Definition of Controller).	A Financing Company noted that fulfillment of this requirement will be subject to customer disclosure during on-boarding, moreover the customer may assume this role after on-boarding which we might not be able to ascertain/ establish post fact. Hence, compliance with this requirement is not viable.	SP7	See GR1
	A Bank noted that this can be a challenge to report as well. How does a bank ascertain a controller of another CBB licensee? A loan to an individual – how can we verify if an individual is a “Controller”?	SP8	See GR1
	A Bank noted that the same as SP3 would be the case with Controllers of other CBB licensees.	SP9	See GR1