

# CBB Prior Approval of Writing Off Exposures For Islamic Retail Banks

## Industry Comments and Feedback

### Volume 2

August 2013

Industry Comments		
General Comments:	Ref	CBB's Response
<p><b>A Bank</b> noted that they agree with the changes proposed in the consultation paper, however, they foresee several challenges during implementation:</p> <ol style="list-style-type: none"><li>i. Identifying approved persons of any other CBB licensees – they believe that Bank's will not be in position to identify present and past approved persons of other CBB licensees unless there is a central reference point maintained by the CBB and made available to all banks. Without such knowledge they will not be able to seek CBB approval prior to writing off of exposure in the event of delinquency.</li><li>ii. Identifying guarantors of exposures who are approved persons of any other CBB licensees – As described above, they will be difficulty in identifying a guarantor of a delinquent exposure as an approved person of another CBB licensee without having access to a centralized database maintained by the CBB.</li><li>iii. Identifying controllers of any other CBB licensees – Again as described above, there will difficulty in identifying controllers of other CBB licensees in the event of delinquencies without having access to a centralized database maintained by the CBB.</li></ol>	GR1	<ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• Exposures to approved persons, or exposures which are guaranteed by an approved person of “any other CBB licensee”, has been deleted.</li></ul>

# CBB Prior Approval of Writing Off Exposures For Islamic Retail Banks

Industry Comments and Feedback

Volume 2

August 2013

<b>Specific Comments:</b>			
<b>Reference to the draft Directive:</b>	<b>Comments</b>	<b>REF</b>	<b>CBB's Response</b>
<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><b>A Bank</b> suggest that CBB reconsider the requirement of seeking CBB approval to write off any exposure for present and former approved persons of the CBB licensees. CBB has 400+ licensees and it is difficult to track former and present approved persons, unless the CBB will provide banks with an updated list regularly.</p>	SP1	See GR1.
	<p><b>A Bank</b> noted that exposure to any present or former approved person of the reporting bank is possible; however reporting of an exposure of any present or former approved person of other licensees will not be practical as such information is not publicly available.</p>	SP2	See GR1.
	<p><b>A Bank</b> also recommended limiting the reporting of exposures pertaining to former approved persons for a period of one year or a given time frame from the date they became former.</p>	SP3	The rule has been amended to only apply to current approved persons of the CBB licensees.

# CBB Prior Approval of Writing Off Exposures For Islamic Wholesale Banks

## Industry Comments and Feedback

Volume 2

August 2013

Industry Comments		
General Comments:	Ref	CBB's Response
<b>A Bank</b> 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.	GR1	Banks may contact their supervisory point of contact to discuss any issues.
<b>A Bank</b> suggested that CBB should specify a time frame for submission and approval of the writing off exposures.	GR2	This will be done on a case by case basis.

# CBB Prior Approval of Writing Off Exposures For Islamic Wholesale Banks

Industry Comments and Feedback

Volume 2

August 2013

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><b>A Bank</b> noted that as a concept they support the expansion of the current scope to include the individuals indicated. However, in the case of former approved persons a period similar to statute of limitations may be considered e.g. past 7 years.</p> <p>In order to avoid any slippage, it might be useful for CBB to maintain a centralized database where all the relevant individuals are listed and each bank could be required to check with the database to ensure that every individual that falls within this category is in fact captured.</p>	SP1	<p>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>
	<p><b>A Bank</b> 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	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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</li> </ul>

# CBB Prior Approval of Writing Off Exposures For Islamic Wholesale Banks

## Industry Comments and Feedback

### Volume 2

August 2013

			<p>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> <ul style="list-style-type: none"> <li>Exposures to approved persons, or exposures which are guaranteed by an approved person of “any other CBB licensee”, has been deleted.</li> </ul>
	<p><b>A Bank</b> noted that the rules are an improvement as they would limit the scope for abuse, though it would be difficult for individual Banks to verify whether an individual is or was an approved person from another entity.</p>	SP3	See SP2
(c) Exposure to any other connected counterparties to the bank (as defined in CM-5.5.9).	<p><b>A Bank</b> noted that this can be a challenge to report. How does a bank ascertain who is an “approved person” and his “<b>Connected Counterparty</b>” in another CBB licensee – and even more challenging “a previous approved person”?</p>	SP4	See SP2
(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><b>A Bank</b> is not sure why they should have to obtain approval to write off a loan to a company of which it owns more than 5%, or for which it has a Board seat.</p>	SP5	<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> <p>The CBB needs to have control on the investments of its licensees and therefore</p>

# CBB Prior Approval of Writing Off Exposures For Islamic Wholesale Banks

## Industry Comments and Feedback

### Volume 2

August 2013

			CBB prior written no-objection for writing off exposure to such business entities in which the bank owns more than 5% or has a board seat is a requirement.
(e) Exposures to any Controllers of another CBB licensee (as defined in GR-5.2 – Definition of Controller).	<b>A Bank</b> 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”?	SP6	See SP2
	<b>A Bank</b> think that in the absence of a reliable independent source of such information, it will be extremely difficult for the licensees to be aware of the identities of who the controllers of all other licensees are from time to time, since that such status (i.e. controller) do changed from time to time i.e. the only source in this case will be the client himself.  Such reliable independent information might be provided by the CBB as a periodical list including the name of all controllers of the CBB’s licensees.	SP7	See SP2