

**Consultation: Volume 5 Module HC Money Changers**  
**Industry Comments and Feedback**  
**Volume 5**  
**April 2016**

<b>Industry Comments</b>		
<b>General Comments:</b>	<b>Ref</b>	<b>CBB's Response</b>
<p>A money changer noted the following:</p> <p>Here, we may submit that Modern Exchange Company B.S.C.(c) is fully committed to comply with each of the regulations from Central Bank of Bahrain as well as those of other Statutory Bodies in the Kingdom of Bahrain. In fact, the Company, in a short span of about 7 months from its launch, has already evolved as a corporate very high on compliance and the proposed changes in the module are already largely complied with.</p> <p>However, as Exchange Companies, by and large, work on very thin margins and lean organizational structures, we would request Central Bank not to introduce changes which would result in any heavy establishment costs thereby impacting their viability, per-se.</p>	GR1	Disagree. The rules in this Module are less stringent than other Volumes of the CBB Rulebook.
<p>A money changer noted the following:</p> <p>We have gone through the new changes made in high level controls module which will be feasible for assurance of preventing money laundering and helping for smooth operations of money changers so hereby we do agree with your recommendation.</p>	GR2	Noted

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<b>Specific Comments:</b>			
<b>Reference to the draft Directive:</b>	<b>Comments</b>	<b>REF</b>	<b>CBB's Response</b>
<b>HC-1.1.2A The licensee should have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.</b>	A money changer noted that they require more clarity on whether this provision applies only for newly appointed directors. What is the position in relation to the existing directors of a licensee?	SP1	This guidance should also apply to existing directors with a transition period of 30 days.
<b>HC-1.1.8 The Board must establish and disseminate to employees policies and processes for the identification, reporting and prevention or management of potential conflicts of interest, including matters such as: (a) Related party transactions; (b) The misuse of the licensee's assets; and (c) The use of privileged information for personal advantage ('insider trading').</b>	A money changer noted that the rule needs to be rephrased to apply to money changers.	SP2	See Paragraph HC-B.1.1 on the scope of the Module which states that "The content of this Module applies to <b>all Money Changer licensees</b> authorised in the Kingdom of Bahrain, thereafter referred to in this Module as licensees."

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<p><b>HC-1.3.2B Individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively (see table below). Voting and attendance proxies for board meetings are prohibited at all times.</b></p>	<p>A money changer noted the following:</p> <p>It is suggested that voting and attendance by alternate directors (proxies) may be allowed in emergency situations which may arise due to unforeseen circumstances like illness, accidents, etc.</p>	<p>SP3</p>	<p>Disagree. The CBB has taken a consistent approach in applying this rule to all CBB licensees.</p>
<p><b>HC-1.4.1 The Board must encourage participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.</b></p>	<p>A money changer noted the following:</p> <p>It is suggested to amend the paragraph as follows: The Board must encourage participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO <b>or General Manager</b> (as the case may be) believes should have exposure to the directors.</p>	<p>SP4</p>	<p>Noted Amendment made.</p>
<p><b>HC-2.1.4 The duty of loyalty includes a duty not to use property of the licensee for his personal needs as though it was his own property, not to disclose confidential information of the licensee or use it for his personal profit, and to serve the licensee's interest in any transactions with the company in which he has a personal interest.</b></p>	<p>A money changer noted that the rule needs to mention "unless approve person".</p>	<p>SP5</p>	<p>Disagree. The whole chapter "Approved Persons Loyalty" applies to approved persons.</p>
	<p>A money changer noted that they found that it is not clear and specific enough to explicate what are the criteria by which the transactions will be considered a personal interest for the members of the Board of Directors.</p>	<p>SP6</p>	<p>Please refer to HC-2.1.5, which clarifies what "personal interest" is as follows:</p> <p>HC-2.1.5 For purposes of Paragraph HC-2.1.4, an approved person should be considered to have a "personal interest" in a transaction with the company if: (a) He himself; (b) A member of his family (i.e. spouse, father, mother, sons,</p>

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			daughters, brothers or sisters); or (c) 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 de minimis in value should not be included.)
<p><b>HC-2.1.5 For purposes of Paragraph HC-2.1.4, an approved person should be considered to have a “personal interest” in a transaction with the company if: (a) He himself; (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or (c) 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 de minimis in value should not be included.)</b></p>	<p>A money changer noted that the rule needs to be revised to apply to family businesses.</p>	SP7	<p>Disagree. The CBB will not differentiate between family business and other money changers in this rule.</p> <p>Note: The paragraph has been amended as follows:</p> <p><b>HC-2.1.5 For purposes of Paragraph HC-2.1.4, an approved person <b>is</b> considered to have a “personal interest” in a transaction with the company if: (a) He himself; (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or (c) 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 de minimis in value should not be included.)</b></p>
	<p>A money changer noted the following: Please specify the percentage in which the financial interest will be considered material.</p>	SP8	<p>For consistency purposes, we cannot specify a percentage since it will differ from one licensee to another.</p>

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	A money changer noted that they found that it is not clear and specific enough to explicate what are the criteria by which the transactions will be considered a personal interest for the members of the Board of Directors.	SP9	See SP6
<b>HC-2.2.4 Each approved person must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the licensee.</b>	A money changer noted that the rule needs to be revised.	SP10	The rule is applied to all money changers on a consistent basis.
<b>HC-2.2.5 Board members must absent themselves from any discussion or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject, transaction or proposed transaction where there is a potential conflict of interest.</b>	A money changer noted that the rule needs to be revised.	SP11	See SP10
<b>HC-3.1.2 To encourage management accountability for the financial statements required by the directors, the licensee's CEO and chief financial officer should state in writing to the Board as a whole that the licensee's interim and annual financial statements present a true and fair view, in all material respects, of the licensee's</b>	A money changer noted that the rule needs to include Chairman as part of the accountability.	SP12	This paragraph refers to "management accountability" and not the Board in terms of providing a written statement to the Board as a whole that the licensee's interim and annual financial statements present a true and fair view, in all material respects, of the licensee's financial condition and results of operations in accordance with applicable accounting standards. Board accountability is dealt with under Paragraph HC-1.1.1A.

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<p><b>financial condition and results of operations in accordance with applicable accounting standards.</b></p>	<p>A money changer noted the following: It is suggested to amend the paragraph as follows:  To encourage management accountability for the financial statements required by the directors, the licensee’s CEO <b>or General Manager</b> and chief financial officer should state in writing to the Board as a whole that the licensee’s interim and annual financial statements present a true and fair view, in all material respects, of the licensee’s financial condition and results of operations in accordance with applicable accounting standards.</p>	<p>SP13</p>	<p>Noted Amendment made.</p>
<p><b>HC-5.1.2 The Board must appoint senior management whose authority must include management and operation of current activities of the licensee, reporting to and under the direction of the Board. The senior managers must include at a minimum: (a) A CEO or General Manager; (b) A chief financial officer; (c) An internal auditor (see HC-6.4 and AU-1.2); and (d) A compliance officer (seeHC-6.5 and AU-1.2). and must also include such other approved persons as the Board considers appropriate and as a minimum must include persons</b></p>	<p>A money changer noted the following: Rule HC-6.4 &amp; HC-6.5 is not included in this module. Kindly advise.</p>	<p>SP14</p>	<p>Noted. Reference to HC-6.4 and HC-6.5 is a typographical error. This has been substituted with HC-5.4 and HC-5.5 respectively.</p>
	<p>A money changer noted that reference to HC-6.4 and HC-6.5 seems to be a typographical error. This may be substituted with HC-5.4 and HC-5.5 respectively.</p>	<p>SP15</p>	<p>See SP14.</p>

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<p><b>occupying controlled functions as outlined in Paragraph AU-1.2.2.</b></p>			
<p><b>HC-5.2.1 Licensees must maintain clearly documented and communicated staff responsibilities and reporting lines.</b></p>	<p>A money changer noted that this seems to be a repetition of Paragraph HC-2.2.1 in the existing version.</p>	<p>SP16</p>	<p>Noted. Paragraphs HC-2.2.1 and HC-2.2.2 have been deleted.</p>
<p><b>HC-5.2.2 For the purposes of Rule HC-6.3.1, licensees should maintain and document their delegated authority structure as well as written terms of reference for staff positions.</b></p>	<p>A money changer noted the following: Rule HC-6.3.1 is not included in this module. Kindly advise.</p>	<p>SP17</p>	<p>Noted. Reference has been corrected to HC-5.2.1.</p>
<p><b>HC-5.2.3 The Board must adopt by-laws prescribing each senior manager's title, authorities, duties and internal reporting responsibilities. This must be done in consultation with the CEO, to whom the other senior managers should normally report.</b></p>	<p>A money changer noted the following:</p> <p>It is suggested to amend the paragraph as follows:</p> <p>The Board must adopt by-laws prescribing each senior manager's title, authorities, duties and internal reporting responsibilities. This must be done in consultation with the CEO or General Manager, to whom the other senior managers should normally report.</p> <p>The Board's responsibility in this regard should be limited to the key control functions like CFO, MLRO, Internal Audit, etc.</p>	<p>SP18</p>	<p>Noted.</p> <p>Regarding the suggested second paragraph, the rule applies to all senior managers that report to the CEO.</p>
<p><b>HC-5.2.4 These provisions must include but should not be limited to the following: (a) The CEO</b></p>	<p>A money changer noted the following: Rule HC-3.4.1, HC-6.4 &amp; HC-6.5 is not included in this module. Kindly advise.</p>	<p>SP19</p>	<p>Noted.</p> <p>HC-3.4.1 has been substituted to HC-3.1.2.</p>

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<p><b>must have authority to act generally in the licensee’s name, representing the licensee’s interests in concluding transactions on the licensee’s behalf and giving instructions to other senior managers and licensee employees; (b) The chief financial officer must be responsible and accountable for: (i) The complete, timely, reliable and accurate preparation of the licensee’s financial statements, in accordance with the accounting standards and policies of the licensee (see HC-3.4.1); and (ii) Presenting the Board with a balanced and understandable assessment of the licensee’s financial situation; (d) The internal auditor’s (see HC-6.4) duties must include providing an independent and objective review of the efficiency of the licensee’s operations. This would include a review of the accuracy and reliability of the licensee’s accounting records and financial reports as well as a review of the adequacy and effectiveness of the licensee’s risk management,</b></p>	<p>A money changer noted the following:</p> <p>It is suggested to amend Paragraph HC-5.2.4(a) as follows:</p> <p>These provisions must include but should not be limited to the following: (a) The CEO <b>or General Manager</b> must have authority to act generally in the licensee’s name, representing the licensee’s interests in concluding transactions on the licensee’s behalf and giving instructions to other senior managers and licensee employees;</p>	<p>SP20</p>	<p>Reference to HC-6.4 and HC-6.5 is a typographical error. This has been substituted with HC-5.4 and HC-5.5 respectively.</p> <p>Agreed. Amendment made.</p>
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<p>control, and governance processes; and (e) The compliance officer's (see HC-6.5) duties include maintaining effective systems and controls for compliance with applicable requirements in the Kingdom's legislation and those set by the CBB, and those established under any other statute or regulator to which they are subject.</p>			
<p><b>HC-5.2.5 The Board should also specify any limits which it wishes to set on the authority of the CEO or other senior managers, such as monetary maximums for transactions which they may authorize without separate Board approval.</b></p>	<p>A money changer noted the following:  It is suggested to amend the paragraph as follows:  The Board should also specify any limits which it wishes to set on the authority of the CEO or General Manager or other senior managers, such as monetary maximums for transactions which they may authorize without separate Board approval.</p>	<p>SP21</p>	<p>Agreed.. Amendment made.</p>
<p><b>HC-5.3.3 Residency requirements apply to Chief Executives and General Managers (see Section AU-2.2.)</b></p>	<p>A money changer noted that the rule needs to be discussed.</p>	<p>SP22</p>	<p>See SP10.</p>