

Consultation Paper

Financing Companies Licensees draft Modules

Industry Comments and Feedback

January 2013

Industry Comments		
Proposed Rule	Comments	CBB Initiative
General Requirements Module(GR) (Specific Module)		
<p>GR-A.1.1</p> <p>The General Requirements Module presents a variety of different requirements that are not extensive enough to warrant their own stand-alone Module, but for the most part are generally applicable. These include general requirements on the use of corporate and trade names; on the distribution of dividends; on the transfer of assets or liabilities; on controllers; and on suspension of business. Each set of requirements is contained in its own Chapter.</p>	<p>A licensee noted that no separate chapter was provided for CBB requirements on the transfer of assets and liabilities as stated under the GR-A.1.1 “Executive Summary”.</p> <p>It is noted that the same has been covered under general requirements on books and records, the necessary changes could be in the documents.</p>	<p>Agree- “transfer of assets or liabilities” has been deleted, as this aspect is not included in Module GR for Financing Companies and a reference to general requirements on books and records has been added.</p>
<p>GR-1.1.1</p> <p>In accordance with Article 59 of the CBB Law, all <u>licensees</u> must maintain books and records (whether in electronic or hard copy form) sufficient to produce financial statements and show a complete record of the business undertaken by a <u>licensee</u>. These records must be retained for at least ten years according to Article 60 of the CBB Law.</p>	<p>A licensee noted that the requirement mentioned herein should be applied only prospectively once the module comes into effect.</p>	<p>Disagree - This requirement is already in Article 60 of the CBB Law, which is in effect since 2006. Further, all financing companies are currently, and until Volume 5 rulebook has been published, instructed to follow Volume 1 rulebook, which includes such requirement.</p>

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<p>GR-1.2.1 <u>Licensees</u> must keep completed transaction records for as long as they are relevant for the purposes for which they were made (with a minimum period in all cases of ten years from the date when the transaction was terminated). Records of terminated transactions must be kept in their original form (whether in hard copy and/or electronic format).</p>	<p>A licensee noted that the requirement mentioned herein should be applied only prospectively once the module comes into effect.</p>	<p>Disagree - Please Refer to the previous point.</p> <p>Note: The duration will be changed to 5 years to be consistent with other volumes of the CBB rulebook.</p>
<p>GR-1.3.1 <u>Licensees</u> must maintain the following records in original form or in hard copy at their premises in Bahrain:</p> <ul style="list-style-type: none">(a) Internal policies, procedures and operating manuals;(b) Corporate records, including minutes of <u>shareholders'</u>, <u>Directors'</u> and management meetings;(c) Correspondence with the CBB and records relevant to monitoring compliance with CBB requirements;(d) Reports prepared by the <u>licensee's</u> internal and external auditors; and(e) Employee training manuals and records.	<p>A licensee noted that no retention period has been stipulated for corporate records in the referenced paragraph.</p>	<p>These records are to be kept permanently and maintained on an ongoing basis.</p>
<p>GR-1.3.4 <u>Licensees</u> must maintain all material related to promotional schemes as outlined in Section BC-1.1 for a minimum period of 5 years.</p>	<p>A licensee noted that the requirement mentioned herein should be applied only prospectively once the module comes into effect.</p>	<p>Financing Companies are required to apply the requirements of Retail Banks until Financing Companies Rulebooks are published. And this rule is already in banking rulebooks,</p>

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		specifically in Module OM. Note: Typo – to correct “material” to “materials”.
GR-2.2.1 Any written communication, including stationery, business cards or other business documentation published by the <u>licensee</u> , or used by its employees must include a statement that the <u>licensee</u> is regulated by the Central Bank of Bahrain, the type of license and the legal status.	An audit firm suggested including ‘name of the licensee’.	Noted – In the rule we are emphasizing on the requirement of adding the legal status of the license granted by the CBB. Other information included in the publications is left to the licensees’ discretion. However, ‘name of the licensee’ is essential information which should be included by default.
GR-4.1.5 Where a <u>controller</u> is a legal person, any change in its shareholding must be notified to the CBB at the earlier of: (a) When the change takes effect; and (b) When the <u>controller</u> becomes aware of the proposed change.	A licensee assumes that the change in shareholding referred to in the clause pertains to the controller’s shareholding in the CBB licensed entity. If not, the requirement should be suitably re-worded to reflect the above else compliance with the same will not be practical.	Noted – The CBB is concerned about the “controllers” of the licensee, i.e. the financing company.
GR-4.1.10 <u>Licensees</u> must submit, within 3 months of their financial year-end, a report on their <u>controllers</u> (See Subparagraph BR-5.1.2(g)). This report must identify all <u>controllers</u> of the <u>licensee</u> , as defined in Section GR-4.2 and the extent of their shareholding interests.	A licensee noted that the reference made to the BR Module therein (BR-5.1.2g) does not exist in the mentioned module. The same needs to be corrected.	Agree – Typo, the reference to BR-5.1.2(g) has been corrected to BR-1.1.2(f). Note: The reference provided in BR-1.1.2(f) has also been corrected from GR-5.1.10 to GR-4.1.10.

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<p>GR-5.1.3 <u>Licensees</u> must submit to the CBB, within 3 months of their financial year-end, a report on their <u>close links</u> (See Subparagraph BR-1.1.2(h)). The report must identify all undertakings closely linked to the <u>licensee</u>, as defined in Section GR-5.2.</p>	<p>A licensee noted that the reference made to the BR Module therein should be changed to BR-1.1.2g.</p>	<p>Agree - Typo, the reference to BR-1.1.2(h) has been corrected to BR-1.1.2(g).</p> <p>Note: The reference provided in BR-1.1.2(g) has also been corrected from GR-6.1.3 to GR-5.1.3.</p>
<p>Capital Adequacy Module (CA) (Specific Module)</p>		
<p><i>Gearing Ratio</i></p> <p>CA-1.1.4 In addition to the requirements outlined in Paragraphs CA-1.1.1 and CA-1.2.1., all <u>licensees</u> must maintain a minimum <u>gearing ratio</u> of 20%.</p> <p>CA-1.1.5 For purposes of Paragraph CA-1.1.4, the gearing ratio is defined as the <u>core capital</u> divided by the total <u>liabilities</u>.</p>	<p>A licensee noted that the maintenance of minimum gearing ratio and its method of calculation - CBB is fully aware of and understands the licensee's financing/factoring arrangement. Considering that arrangement, the regulation should either state that it does not apply to a company like ours or a specific waiver from the same should be accorded to the licensee.</p> <p>A licensee noted that in CA-1.1.4 - Reference to minimum gearing ratio of 20%. Could the CBB consider rewording this similar to Volume 2 as "Liabilities should not exceed 5 times the respective financial institution's Core Capital"? There may also be an extreme scenario where the financial institution may not hold any Liabilities. In this case, Gearing Ratio will become irrelevant.</p>	<p>The current arrangement results in no leverage. However, the Rule still applies.</p> <p>This requirement will be consistent among all CBB rulebook volumes, being 20% and not 5 times. No change.</p>

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<p>CA-1.1.6 Core capital shall consist of the sum of items (a) to (e) below, less the sum of items (f) to (i) below:</p> <ul style="list-style-type: none">(a) Issued and fully paid ordinary shares (net of treasury shares);(b) Share premium reserve;(c) Perpetual non-cumulative preference shares;(d) All disclosed reserves brought forward, that are audited and approved by the shareholders, in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve¹;and(e) Retained profit brought forward; <p>LESS:</p> <ul style="list-style-type: none">(f) Goodwill;(g) Current interim cumulative net losses;(h) Unrealised gross losses arising from fair valuing equity securities²; and(i) Other deductions, as specified by the CBB.	<p>Au audit firm suggested that in sub-paragraph (d-footnote 1) should specify whether it refers to gains on debt securities or equity securities or both.</p> <p>2) Also, in sub-paragraph (h), should this also cover unrealized gross losses arising from fair value 'debt securities'?</p>	<p>The footnote 1) refers to all components of the fair value reserve according to the accounting standards.</p> <p>The word equity has been deleted and therefore includes all securities.</p>
<p>CA-1.1.7 Interim profits which have been reviewed as per IAS 34 may be included as <u>core capital</u>.</p>	<p>An audit firm suggested that more guidance on factors to be considered for including/ not including these reviewed profits into core capital.</p>	<p>Being an accounting concept, no guidance is required to be added to the CBB Rulebook.</p>

¹ This refers to unrealised fair value gains reported directly in equity

² This refers to both 'net losses taken through P&L' and 'gross losses reported directly in equity'.

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<p>CA-1.1.9 <u>Licensees</u> must ensure that at all times they maintain the minimum <u>gearing ratio</u> outlined in Paragraph CA-1.1.4. In the event that the <u>licensee</u> does not comply with the minimum <u>gearing ratio</u>, it must notify the CBB by no later than the following business day of the actual level of the <u>gearing ratio</u>. When providing such notification, the <u>licensee</u> must:</p> <p>(a) Provide to the CBB, within one week of the non-compliance, a written action plan setting out how the <u>licensee</u> proposes to restore its <u>gearing ratio</u> to the required minimum level and describe the systems and controls that have been put in place to prevent any future non-compliance of the minimum <u>gearing ratio</u>; and</p> <p>(b) Report to the CBB on a monthly basis or on another timely basis as required by the CBB, the <u>licensee's gearing ratio</u> until such time as the <u>gearing ratio</u> has reached 22% or other target level as specified by the CBB.</p>	<p>A licensee noted that in sub-paragraph (b) should refer to 20% instead of 22%.</p>	<p>Disagree – the percentage is 22% that is intended to act as a monitoring early warning tool, to ensure that the non-compliance is not repeated in the near future.</p>
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