

**Consultation on Proposed Changes to Section CM-7.1 for Volume 1 (Section CM-6.1 for Volume 2)
concerning the CBB's prior approval requirements of writing off exposures
Conventional & Islamic Branches of Foreign Banks
February 2016**

Specific Comments:			
Reference to the draft Directive:	Comments	REF	CBB's Response
<p>CM-7.1.1 All Bahraini conventional bank licensees must notify the CBB of any write-off of an exposure a credit facility, (i.e., loan, overdraft and any other credit facility) of an amount in excess of BD 100,000, or its equivalent in foreign currency.</p> <p>CM-7.1.2 Such notification should be accompanied by documentary evidence showing, beyond reasonable doubt, that the customer does not possess the resources to fulfil the outstanding obligation.</p>	<p>A Branch of a Foreign Bank asked to clarify the periodicity of the notification process; e.g. on the 1st of every month a report of all write-off exceeding BD 100,000 is sent to the CBB.</p>	SP-1	<p>The requirement stipulated in this Paragraph is a notification, which means that the CBB must be notified whenever such transaction occurred. The requirement is not a report, to mandate it in a certain frequency.</p> <p>Also this particular requirement only applies to Bahraini conventional banks (locally incorporated) and not to overseas banks.</p>
	<p>A Branch of a Foreign Bank noted the following:</p> <ul style="list-style-type: none"> -The change states in CM-7.1.1 All Bahraini conventional bank licensees must notify the CBB of any write-off of an exposure of an amount in excess of BD 100,000 or its equivalent in foreign currency. - However in CM-7.1.3/CM-7.1.4/CM-7.1.5 It states All conventional bank licensees <ol style="list-style-type: none"> 1. It should be clearly stated that the requirements in this chapter are all applicable to All Conventional Bank Licensees (locally incorporated as well as branches of conventional foreign banks). 2. In fact the CBB Rulebook should be aligned with 	SP-2	<p>Paragraph CM-7.1.1 (notification in case of any write-off in excess of the amount mentioned) is intended to apply only to <u>Bahraini</u> conventional bank licensees (only locally incorporated). However, the aim of this consultation paper is to widen the scope of Paragraph CM-7.1.3 (prior written approval from the CBB in case of write-offs related to exposures listed in the paragraph) to be applied to all <u>branches of foreign banks</u> operating in Bahrain <u>and</u> <u>Bahraini</u> bank licensees.</p> <p>BR will be amended accordingly.</p>

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	<p>the BR Module, to clearly specify if the regulatory requirement applicable to:</p> <ul style="list-style-type: none"> -All Locally Incorporated Banks or -All Branches of conventional foreign banks or -All Conventional Bank Licensees (locally incorporated as well as branches of conventional foreign banks). 		
	<p>A Branch of a Foreign Bank noted that the bank don’t see any problem for the approval procedure for approved persons.</p> <ol style="list-style-type: none"> 1. Application of CM.7.1.1 and CM.7.1.2. will be very difficult and not practical for us. It will affect the decision making process for these exposures in Head Office. In the Home jurisdiction write-off procedure is not only subject to banking regulations but also tax legislation as well. After the write-off it creates financial and tax consequences. In the home jurisdiction we don’t have prior approval procedure for these transactions, but afterwards they are reviewed both in banking and tax audits. All our customers are out of Bahrain, so it will be difficult to provide the requirements of CM 7.1.2. 2. Selling a loan to another bank with face value, but there is some interest loss due to mark to market value of interest or bank disclaim % 10-20 of loan with collection condition. This type of transactions shouldn’t be in the scope of this approval procedure. 	SP-3	<p>Paragraphs CM-7.1.1 and CM-7.1.2 apply only to Bahraini Conventional Bank Licensees.</p>

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<p>CM-7.1.3 All conventional bank licensees must obtain the CBB’s written no-objection before writing off any of the following:</p> <p>(a) Exposures to any approved person of the bank or any other CBB licensee;</p> <p>(b) Exposures which are guaranteed by an approved person of the bank;</p> <p>(c) Exposures to any other connected counterparties of the bank (as defined under Paragraph CM-5.5.9);</p> <p>(d) [This Subparagraph was deleted in October 2015];</p> <p>(e) 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 person assuming a managerial role, a guarantor; and</p> <p>(f) Exposures to any controller of another CBB licensee (as defined in Section GR-5.2 – Definition of Controller).</p>	<p>A Branch of a Foreign Bank noted:</p> <p>1. That currently, customers are not being classified in our system according to the categories mentioned under CM-7.1.3. The classification of existing customers would have to be done on a best efforts basis based on the information update received from such customers.</p> <p>2. A suggestion to mention the time CBB would require for providing the no-objection.</p>	<p>SP-4</p>	<p>1. As part of banks “Due Diligence” procedures is to “Know the Customer”, knowing the customer would include, but not limited to, knowing if the customer falls under the definitions provided for the persons listed in this paragraph.</p> <p>Further, information on all approved persons of CBB licensees is now available on the CBB Website (www.cbb.gov.bh/The Financial Sector/CBB Register).</p> <p>2. We see no need to specify.</p>
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	<p>A Branch of a Foreign Bank noted the following: “Exposures to any approved person of the bank or any other CBB licensee” and “Exposures which are guaranteed by an approved person of the bank” can be implemented by referring to the CBB website register. However, it is requested that a field for date of birth or ID number is inserted to ensure accurate reporting. 2. Exposures to any other connected counterparties of the bank (as defined under Paragraph CM-5.5.9); <i>We require clarification if this would be applicable to branches of overseas banks as well? In affirmative, we would require clarification if the requirement applies to the Bahrain operations or the Head Office. In this respect clarity should also be provided in relation to the below:</i> a) <i>For directors and family links – (at local or Group level?)</i> b) <i>For Senior management – our understanding is that this applies to local senior management/approved persons of controlled functions. We would require that this is made clear in the proposed regulation.</i> c) <i>For Other Staff – A definition would be required.</i> d) <i>For Shareholders (and as per CM 5.5.11) – our understanding is that this does not apply to our Bahrain as a branch of a foreign entity. It should be specified if this would apply to the parent company.</i></p>	<p>SP-5</p>	<p>1. CBB cannot publish this information. However, ID and date of birth are available under IIS in an optional field.</p> <p>2. a) Valid point. Branches do not have BOD. b) Agree. The rule refers to senior management of Bahrain branch. c) Please note that the bank is referring to an old version of CM module. The current definition of connected counterparties under CM 5.5.9 does not include “other staff”. d) Valid point. Branches do not have shareholders.</p>
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<p>CM-7.1.4 All conventional bank licensees must notify the CBB of any exposures outlined in Paragraph CM-7.1.3 that are classified as non-performing loans.</p> <p>CM-7.1.5 In order to comply with Subparagraphs CM-7.1.3 (a) and (f), Bahraini conventional bank licensees should refer to the CBB register on the CBB Website which contains a list of approved persons and controllers of all CBB licensees.</p>	<p>A Branch of a Foreign Bank asked to clarify the periodicity of the notification process; e.g. on the 1st of every month a report of all such non-performing loans is sent to the CBB.</p>	<p>SP-6</p>	<p>The requirement stipulated in this Paragraph is a notification, which means that the CBB must be notified whenever such exposure is classified as NPL.</p>
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