

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

Industry Comments		CBB Initiative	
General Comments			
<p>A Money Changer stated that more clarity is needed regarding the location of the internal audit function in the Group Head Quarters (UK in this case). It understands that the group's support can be utilized for internal audit function; however, Can the team be located outside the country? Clarification is needed.</p>		Disagree. Licensees must establish an Internal audit function to monitor the adequacy of their systems and controls in Bahrain.	
Specific comments			
	Rulebook Ref.	comments	CBB Initiative
Common Modules			
Auditors and Accounting Standards (AA)			
AA-1.3.1		Unless otherwise exempted by the CBB, specialised licensees must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession.	-
AA-1.3.1	<p>A Money Changer stated that should the auditors currently assigned to the company fulfill all their responsibilities and accountabilities and have already been approved by the CBB, it does not feel there is any reason to change and thus incur extra costs. It considers this also to be a bank directive.</p>		Disagree; the requirement is with regards to the Partner only and not the entire Audit Firm.
AA-2.1.1		Specialised licensees must waive any duty of confidentiality on the part of their auditors, such that their auditors may report to the CBB any concerns held regarding material failures by the specialised licensee to comply with CBB requirements.	-
AA-2.1.1	<p>A Money Changer stated that confidentiality is a vital part of the relationship between a company and their auditors. It stated further that it will allow the auditors to report to the CBB only once it has been briefed in detail of the alleged material failures and have been given sufficient time to rectify these areas.</p>		Disagree; Auditors have the right to report any material failure to the CBB without referring back to the Licensees. This is in accordance with Article 63 of the CBB Law.
AA-3.1.1		Specialised licensees must arrange for their auditors to review the licensee's Quarterly Prudential Return to the CBB prior to its submission, unless otherwise exempted in writing by CBB. Auditors must complete the prescribed form attesting to their review, which must be attached to the Quarterly Prudential Return.	-

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

AA-3.1.1	<p>A Money Changer stated that it sees the value of a quarterly review, however, expenses notwithstanding, it would prefer to comply with this request as non audited quarterly reports.</p> <p>The CBB is requested to waive the condition of reviewing the Quarterly Report by the auditors.</p>	Agree, an exception statement will be added to the module to exempt the Money changers from this requirement.
Financial Crime (FC)		
FC-1.1.7	<p>Where a customer is acting on behalf of a third party, the <u>licensee</u> must also obtain a signed statement from the third party, confirming they have given authority to the customer to act on their behalf. Where the third party is a legal person, the <u>licensee</u> must have sight of the original board resolution (or other applicable document) authorising the customer to act on the third party's behalf, and retain a certified copy. <u>licensees</u> must obtain a signed statement from all new customers confirming whether or not the customer is acting on their own behalf or not.</p>	-
F.C.1.1.7	<p>A Money Changer stated that their experience has shown it is not viable for companies to allow original legal documents to be constantly taken around. It is recommended that a certified copy of the original be provided. In line with the CBB's acceptable rules for certification.</p>	Agree, the module will be amended to require certified copies only.
FC-4.1.6	<p>So that he can carry out his functions effectively, <u>licensees</u> must ensure that their MLRO:</p> <ul style="list-style-type: none"> (a) is a director or a member of senior management of the <u>licensee</u>; (b) has a sufficient level of seniority within the <u>licensee</u>, has the authority to act without interference from business line management and has direct access to the board and senior management (where necessary); (c) has sufficient resources, including sufficient time and (if necessary) support staff, and has designated a replacement to carry out the function should the MLRO be unable to perform his duties; (d) has unrestricted access to all transactional information relating to any financial services provided by the <u>licensee</u> to that customer, or any transactions conducted by the <u>licensee</u> on behalf of a customer; (e) is provided with timely information needed to identify, analyse and effectively monitor customer accounts; (f) has access to all customer due diligence information obtained by the <u>licensee</u>; and (g) is resident in Bahrain. 	-
FC-4.1.6	<p>A Money Changer fully supports the role of the MLRO and full access is granted to all records to enable the MLRO to complete his job effectively. It do not agree that he needs to be a member of Senior Management or a Director. This is considered to be more a requirement for banks than for Exchange houses.</p>	Disagree; the MLRO is considered a controlled function throughout the Rulebook.

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

<i>CDD and Transaction Records</i>		
FC-7.1.1	<p><u>Licensees</u> must comply with the record keeping requirements contained in the AML Law and in the CBB Law. <u>Licensees</u> must therefore retain adequate records (including accounting and identification records), for the following minimum periods:</p> <p>(a) for customers, in relation to evidence of identity and business relationship records (such as application forms and business correspondence), for at least five years after the customer relationship has ceased; and</p> <p>(b) for transactions, in relation to documents enabling a reconstitution of the transaction concerned, for at least five years after the transaction was completed.</p>	
<i>Compliance Records</i>		
FC-7.1.2	<p><u>Licensees</u> must retain copies of the reports produced for their annual compliance review, as specified in Paragraph FC-4.3.1, for at least five years. <u>Licensees</u> must also maintain for 5 years reports made to, or by, the MLRO made in accordance with Sections FC-5.1 and 5.2, and records showing how these reports were dealt with and what action, if any, was taken as a consequence of those reports.</p>	
<i>Training Records</i>		
FC-7.1.3	<p><u>Licensees</u> must maintain for at least five years, records showing the dates when AML/CFT training was given, the nature of the training, and the names of the staff that received the training.</p>	
FC-7.1	<p>It was stated that as per General Requirements Module money changers are required to keep all transaction records for a period of 10 years (Please refer GR-1.2.1). However according to Financial Crime Module FC-7.1 it is five years instead of ten; Could the CBB provide more clarity on this point?</p>	<p>The CBB record keeping policy for the FC related transaction is 5 years and will be maintained. The GR module will be clarified and amended to state that “for AML/CFT transactions the records must be kept for 5 years” and a cross reference to FC module will be added.</p>
Enforcement (EN)		
EN-5.2.2	<p>As indicated in Section EN-B.4, the CBB requires disclosure by <u>licensees</u> in their annual reports of any financial penalties served on them, together with a factual description of the reasons given by the CBB for applying the penalty. In addition, the CBB may publicise the issuance of a financial penalty notice, where</p>	

Consultation Paper

Money Changers draft Modules

Industry Comments and Feedback

24th August 2010

	there is a strong case that doing so would help achieve the CBB's supervisory objectives, as mentioned in Article 132 of the pre-mentioned Law.	
EN-5.2.2	A Money Changer considers this to be applicable to banks, such as banks quoted on the stock exchange. It feels that they are neither a bank nor are listed on the stock exchange and should be exempt from this. It sees the value of this, however, this is more to do with protecting the investor who may have bought shares in a particular company and thus it is right that the public should be aware of their conduct through any publication.	Disagree-this requirement is applicable to all CBB licensees.
EN-5.3.1	In addition to the general circumstances set out in Section EN-5.2, a financial penalty of up to BD 20,000 may be applied by the CBB in cases where a <u>licensee</u> fails to comply with any of the requirements in Module FC (Financial Crime).	-
EN-5.3.1	A Money Changer considers this to be applicable to banks. The size of the penalty is disproportionate to the income generated by the exchange house. Sufficient notification of alleged failure of compliance as well as sufficient time to rectify the situation is required.	Disagree-this requirement is applicable to all CBB licensees.
Specific Modules		
Authorisation (AU)		
<i>Money Changer License Permitted Activities</i>		
AU-1.1.8	For the purposes of Volume 5 (Specialized Licensees), <u>regulated money changer services</u> mean all transactions including: a) the sale, purchase and exchange of foreign currencies' b) currency transfer from Bahrain; c) purchase and sale of traveler' cheques; d) the <u>dealing in precious metals</u> within the allowed limits; e) or any other financial business licensed by the CBB.	-
AU-1.1.8	The CBB is requested to amend point b) to : b) currency transfer to and from Bahrain and include point f): f) any other value added services (non core)	b) Agree, the point will be amended accordingly; f) Disagree. only regulated services defined under this Module will be allowed
AU-2.1.1	The legal status of a <u>licensee</u> must be: (i) A Bahraini joint stock company (B.S.C.); or (ii) A Bahraini company with limited liability (W.L.L.).	-
AU-2.1.1	It was stated that the legal status of licensee must also include:	Disagree- licensees who do not

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

	(iii) Single Person Company (iv) Single person Establishment	meet this requirement must discuss their legal status with the CBB at the earliest.
Starting Operations of a Branch		
AU-4.2.3	New branches must start their operations within 6 months of being authorized by the CBB, failing which the CBB may withdraw the authorization, as per the powers and procedures set out in Article 48 of the CBB Law.	-
AU-4.2.3	A Money Changer stated that the failure to open a branch is normally based on lack of infrastructure requirements such as electricity and the inability of landlords to provide the branch as required, within the time frame. This delay is due to third parties, we feel it a little unfair to jeopardize our business expansion through no fault of our own.	Agree, therefore, AU-4.2.3 and AU-4.2.4 will be deleted.
Business Conduct (BC)		
BC-2.2.10	Any raffles/lotteries etc. held as part of promotional schemes should be independently monitored (e.g. by the institution's external auditor) and adequate systems put in place to ensure fair play and impartiality.	-
BC-2.2.10	It was stated that all promotions presently is monitored by Ministry Official.	No change is required.
BC-2.3.1	<u>Licensees</u> must disclose, maintain and operate effective procedures for handling complaints in a reasonable and timely manner: (a) Informing <u>customers</u> in writing of any out of court complaint and redress mechanism and methods for having access to it; (b) Paying compensation or other forms of redress to <u>customers</u> where the <u>licensee</u> decides this is appropriate; and (c) Regularly verifying if complaints are effectively processed.	-
BC-2.3.1	A Money Changer stated that generally our internal policy will dictate that customer complaints are rectified within 20 days; However this may not always be possible as we are subject to the third party correspondence. Such as banking correspondence in small villages on the Asian continent and Western Union.	No change is required.
CBB Reporting Requirements(BR)		
BR-1.1.1	All <u>licensees</u> must prepare and submit to the CBB, through the Money Changers System, a Monthly Prudential Return (MC-MPR), using the prescribed Form MC-MPR, as contained in Part B of Volume 5.	-
BR-1.1.1	It was stated that clarification is required if the monthly reporting format which is currently used by the Money Changers shall be continued to be used or any new reporting format has been introduced.	Yes, the existing monthly reporting format will continue to be used.
BR-1.1.1	It was stated that traditionally in order to keep costs low, for us to now do this on a monthly basis we would incur extra costs. Our feeling is if this is absolutely necessary, we suggest monthly un-audited and yearly audited.	The monthly return is not required to be audited; therefore, the requirement will not be changed.

Consultation Paper

Money Changers draft Modules

Industry Comments and Feedback

24th August 2010

BR-1.2.1	All <u>licensees</u> must prepare and submit to the CBB, through the Money Changers System, a Quarterly Prudential Return (MC-QPR), using the prescribed Form MC-QPR, as contained in Part B of Volume 5.	-
BR-1.3.1	All <u>licensees</u> must prepare and submit to the CBB, through the Money Changers System, an Annual Prudential Return (MC-APR), using the prescribed Form MC-APR, as contained in Part B of Volume 5.	-
BR-1.2.1 & BR-1.3.1	A Money Changer stated that traditionally in order to keep costs low, for us to now do this on a monthly basis we would incur extra costs. Our feeling is if this is absolutely necessary, we suggest monthly un-audited and yearly audited.	The monthly return is not required to be audited; therefore, the requirement will not be changed.
Capital Adequacy (CA)		
CA-1.1.2	In addition to the minimum capital requirements specified in Section CA-1.2 onwards, the CBB may, at its discretion, require <u>licensees</u> to hold additional capital, should this be necessary (in the CBB's view) to meet additional liquidity requirements.	-
CA-1.1.2	It was inquired: what are the norms under which the requirement of additional capital to meet additional liquidity that will be enforced by CBB on Money Changers?	CA-1.1.2 will be amended to include a cross reference to CA-1.5.2 which includes the norms as it states "A licensee's liquid assets must be held in a form acceptable to the CBB, in a minimum amount of three months estimated expenditure including salaries, rent, general utilities and other operating costs."
CA-1.1.3	Licensees are required to maintain, at all times, the minimum capital requirement specified in Section CA-1.2 in a retail bank licensed to operate in the Kingdom of Bahrain. They must provide, upon request, evidence to the CBB of the deposited amount.	-
CA-1.1.3	It was stated that clarification is required on the terms 'required to maintain, at all times, the minimum capital requirement in a retail bank'. Is the minimum capital to be kept as a deposit in a retail bank or it can be used as a working capital?	It is referred to the working capital. CA-1.1.3 will be amended accordingly.

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

CA-1.3.1	Licensees are required to provide the CBB with a guarantee in respect of their liabilities. The guarantee must be: a) In favor of and callable by the CBB at the CBB's sole discretion; b) Unconditional and irrevocable; c) Issued by a retail bank licensed by the CBB; d) Valid at all times for a period of one year; and e) Renewed at least one week before its expiry and submitted to the CBB;	-
CA-1.3.1	The CBB is requested to give the exact definition of the term 'liability'.	It means all liabilities reported in the Balance Sheet. No change will be made to the module.
General Requirements (GR)		
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).	-
GR-1.2.1	A Money Changer stated that we consider this to be applicable to banks. It does not make sense for an Exchange house making several thousand remittances on a daily basis to keep records for 10 years. Most of our customers are not in the country for more than 3 years. Apart from finding a place to store it, this does not seem practical for us. We would respectfully request keeping documentation for a period of 3 years.	Disagree, transaction records does not necessary mean copies of the remittances. Electronic record can be maintained. Therefore no change will be made to this requirement.
Money in Transfer		
GR-2.1.1	Money belonging to clients of any form, must be channelled through a designated customer account at a Retail Bank in the Kingdom of Bahrain. No claims by the licensee can be made against this account.	-
GR-2.1.1	It was stated that this requirement is not applicable to Money Changers.	Disagree; this is applicable to money changers.
GR-7.1.3	The insurance coverage must be obtained from an insurance firm acceptable to the CBB and licensed in the Kingdom of Bahrain.	-
GR-7.1.3	It was stated that clarification is required from CBB if Large conglomerate spread across numerous countries may be allowed to have one group policy to cover all countries including Bahrain.	Agree, the GR module will be amended accordingly to include global/group policy.
GR-8.1.1	Licensees must display the license granted to them by the CBB, and declare the exchange rates applied by them in a prominent position in their premises, including all of their branches.	-

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

GR-8.1.1	A Money Changer stated that the Exchange rates are currently displayed. Is it absolutely necessary for Exchange houses to display to customers and competitors alike their business credentials?	Disagree; this is as per Article 12 (b) of the Regulation organizing Money Changers business.
GR-9.1.3	<p>Internal Measures</p> <p>(a) Teller counters must be fully screened off from customers by glass screens. Cash should not be directly exchanged through screens. Special purpose trays (i.e. half-rounded trays) should be fitted for the exchange of cash.</p> <p>(b) Access to teller areas must be restricted to authorized staff only.</p> <p>(c) Front doors to teller areas must be eliminated as much as possible. When used, they must be full length, solid, secure and kept locked at all times.</p> <p>(d) Customers dealing with Branch Managers should not enter or pass through teller areas to get to the Branch Manager's office.</p>	-
GR-9.1.3	A Money Changer stated that in all our branches glass screens are present and cash is exchanged through a tray under the glass screens. Cash of the denominations that we see in our branches, exchanged in this environment are not of any significant size. The installation of special purpose trays would not serve any safety purpose in our view.	No change this requirement has been in place since a long time.
GR-9.1.4	<p>Teller Area</p> <p>(a) Hold up buttons or kick bars must be provided within teller areas and should be linked to the MOI Central Monitoring Unit.</p>	-
GR-9.1.4	A Money Changer stated that we do not see the advantage or the serviceability of such installations as serving any real preventative or remedial purpose.	No change this requirement has been in place since the year 2004.
GR-9.1.5	<p>Cash Safety</p> <p>(a) Cash must be kept in safes up to international standards, of sufficient weight that at least three people are required to move them, and preferably secured to a solid floor.</p> <p>(b) All property in vaults and safe should be under the joint custody of two people. Safes and vaults must not be able to be opened by one person.</p> <p>(c) Safes should be located out of the sight of customers wherever possible.</p> <p>(d) All cash movements between branches, or to and from banks should be performed by a special purpose vehicle with optional security provided by MOI surveillance cars.</p> <p>(e) Cash in safes and in transit must be insured against theft and loss. Fidelity insurance is also recommended.</p>	-
GR-9.1.5	A Money Changer stated that our system currently in place involves the opening of the branch shutters, which is not the same key that	No change this requirement has been in place since a long time.

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

	opens our safes. We feel that this is a secure enough procedure.	
GR-11.1.2	Loans may be extended to employees of the licensee, other than proprietors, partners and shareholders of the business.	-
GR-11.1.2	It was stated that this requirement is not applicable to Money Changers. As majority of the Money Changers are closely held companies and the shareholders hold positions in the executive management of the company.	Disagree- proprietors, partners and shareholders of the business won't be allowed to get any loans.
High Level Controls (HC)		
HC-1.1.4	For the purposes of HC-1.1.3, the CBB expects <u>licensees</u> to maintain detailed <u>mandates</u> for Boards and sub-committees. These <u>mandates</u> should be reviewed periodically by the Board. Depending on the size and complexity of the <u>licensee</u> concerned, the CBB also expects the Board to operate appropriate sub-committees, such as an Audit Committee.	-
HC-1.1.4	It was inquired: what 'size and complexity' of the exchange houses necessarily needs to form committees? And what are the committees to be formed by a Single Branch Company or a Single Person Company?	This will be assessed by the CBB on a case by case basis.
HC-1.1.9	Board members must declare annually in writing all of their interests (and those of their <u>family</u>) in other enterprises or activities (whether as a <u>Director</u> , <u>shareholder</u> , senior executive or other form of participation) to the Board (or appropriate Board sub-Committee). Board members must also 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.	-
HC-1.1.9	It was inquired: what kind of disclosures are required to be made by the family run business where all of the directors of the company are holding the shares in other companies to whom the contract is to be awarded? Is the disclosure required to be made by the Board Members for only financial related business?	The requirement will be deleted.
HC-1.2.6	The Chairman of the Board of <u>Licensees</u> must be a non-executive <u>Director</u>. The Chairman therefore may not act as <u>Chief Executive</u>.	-
HC-1.2.6	It was stated that this requirement is not applicable to Money Changers. As majority of exchanges are family owned businesses.	The requirement will be deleted along with HC-1.2.7 and HC-1.2.8.
HC-2.3.2	The CBB would normally expect larger <u>licences</u> to maintain the internal audit function within the organisation (or at least to be provided from within the <u>licensee's</u> group, where relevant, providing this doesn't impair the level of internal audit scrutiny applied to the <u>licensee</u>). The CBB will however consider allowing small <u>licences</u> to outsource part or all of their internal audit function to third party providers.	-
HC-2.3.2	It was stated that criteria for deciding on the 'larger licenses' needs to be clarified. In addition, we request CBB to waive for all the small licensees from Internal Audit function.	Will be considered on a case by case basis.

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

Risk Management (RM)		
RM-1.1.5	The Board of <u>Directors</u> must also ensure that there is adequate documentation of the <u>licensee's</u> risk management framework.	-
RM-1.1.5	The CBB is requested to define the Risk Management for Money Changers.	It is clearly outlined in the RM Module.
RM-1.2.1	<u>Licensees</u> must adequately document the necessary policies and procedures for identifying, measuring, monitoring and controlling counterparty risk. This policy must be approved and regularly reviewed by the Board of <u>Directors</u> of the <u>licensee</u> .	-
RM-1.2.2	Among other things, the <u>licensee's</u> policies and procedures must identify the limits it applies to counterparties, how it monitors movements in counterparty risk and how it mitigates loss in the event of counterparty failure.	-
RM-1.2.1 & RM-1.2.2	A Money Changer considers this to applicable to banks. Our correspondents are also banks. As such we are very limited in being able to apply counterparty risks in an Exchange house environment.	Disagree, money changers must analyse their counterparty risk.
RM-1.3.1	<u>Licensees</u> must maintain a liquidity risk policy for the management of liquidity risk of the <u>licensee</u> , which is appropriate to the nature, scale and complexity of its activities. This policy must be approved and regularly reviewed by the Board of <u>Directors</u> of the <u>licensee</u> .	-
RM-1.3.2	Among other things, the <u>licensee's</u> liquidity risk policy must identify the limits it applies, how it monitors movements in risk and how it mitigates loss in the event of unexpected liquidity events.	-
RM-1.3.1	A Money Changer feels that these are bank directives in light of the current squeeze on the financial markets. Exchange houses do not face the same liquidity problems that a bank might face as we do not hold funds we only transfer what we might take in. We are generally always very liquid by definition.	Disagree, money changers must monitor the liquidity and maintain the expenditure ratio as stated in CA-1.5.2.
RM-1.4.1	Licensees must document their framework for the proactive management of market risk. This policy must be approved and regularly reviewed by the Board of Directors of the licensee.	-
RM-1.4	A Money Changer stated that the market risk, we as an Exchange house experience and the balances we hold are not large enough for an adverse movement in any market to impact us detrimentally.	Disagree, money changers must analyse the market risk.
Training & Competency (TC)		
TC-2.1.6	Individuals holding the <u>controlled functions</u> of compliance officer and MLRO at a <u>licensee</u> must undergo a minimum of 15 hours of <u>CPD</u> per annum.	-

Consultation Paper
Money Changers draft Modules
Industry Comments and Feedback
24th August 2010

TC-2.1.6	A Money Changer stated that we consider this to applicable to banks. The simplicity of an Exchange house business does not warrant this type of extensive training and qualifications due to costs. If this is considered absolutely necessary, would the CBB be able to bear the costs.	Disagree
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