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Compliance & Enforcement Annual Report 2019

For the period ended December, 2019

Capital Markets Supervision Directorate
Central Bank of Bahrain



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1. Introduction



The Capital Markets Supervision Directorate's (the "CMSD") regulatory mandate is to set and enforce high quality capital market industry standards, protect investors and strengthen market integrity while supporting a stimulating capital markets' ecosystem. The Investigation and Enforcement ("IE") team within the CMSD assumes responsibility to ensure effective enforcement of the Central Bank of Bahrain's (the "CBB") regulatory requirements, in order to achieve fairness, transparency, investor protection and safeguard public interests in the Kingdom of Bahrain.

In pursuing these mandates, IE aims to institute a fully-fledged proactive enforcement regimen that ensures the fulfilment of CMSD's requirements by listed companies, self-regulatory

organizations ("SROs") and the related licensees. Accordingly, given each department's invaluable role, the CMSD as a whole, strives to continue to instil and integrate the compliance and enforcement function, directorate-wide. The CMSD believes that this inclusive view of enforcement strengthens and enhances the efforts expended to protect the integrity of the capital markets.

This annual report provides a comparative overview of CMSD's efforts in 2018-2019 to identify and address non-compliances, negligence or misconduct, by accounting for all market participants in order to enact the word of the law, safeguard the interests of all stakeholders and ensure a stimulating environment within which the needs of members, investors and the regulator are met.

2. Compliance Status 2019

With reference to MIE-3.1.8 of the Market Surveillance, Investigation and Enforcement Module (“MIE Module”) of Volume 6 of the CBB Rulebook, in deciding on any given regulatory and enforcement response, the CBB is dependent on examining the circumstance of each individual contravention against Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law (“CBB Law”) and the MIE Module. The CBB’s approach is three-way, in that the gravity of each respective contravention is assessed, the concerned person’s/entity’s compliance track record is examined and finally remedial measures to prevent future contraventions are evaluated and consequently instituted. Accordingly, this section will examine the most recent cases of contraventions of CBB Law and CBB rulebook requirements.

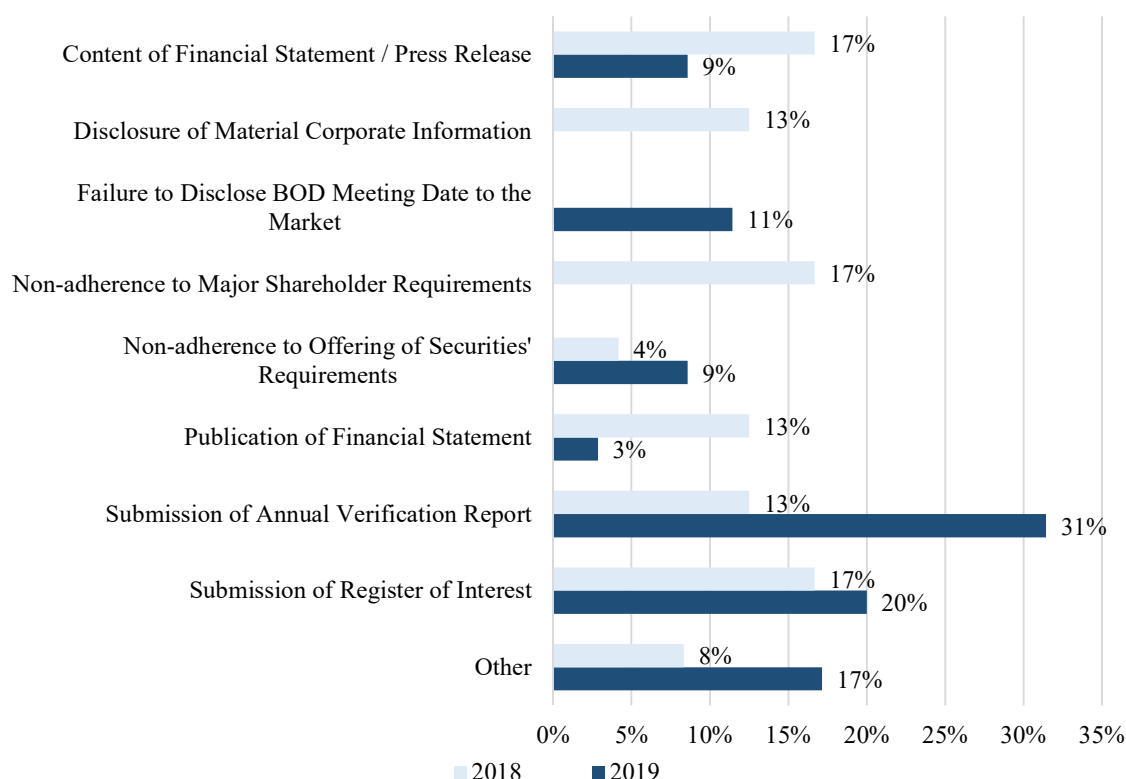
2.1. Listed Companies

➤ Most Recurring Contraventions by Type

Figure 1 below illustrates the overall trend of CMSD-addressed contraventions (including those to which it issued Non-Compliance Letters (“NCLs”), Reminders, Notices, Directives, Warnings, Financial Penalties or suspension of trading) in the years 2018-2019 across listed companies:

Figure 1

Listed Company Contraventions by Type, (2018-2019)



As illustrated above, the top three contraventions across listed companies for 2018 related to the Submission of Register of Interest, Non-adherence to Major Shareholder Requirements and Content of Financial Statement/Press Release. In 2019 however, the most common non-compliances were concentrated on the Submission of Annual Verification Report, making up over a third of 2019's contraventions and more than tripling from 2018, and another periodic return, the Submission of Register of Interest which comprises of a fifth of all noted violations.

Table 1

Listed Company Contraventions by Type (2018-2019)		
Contraventions by Type	2019	2018
Content of Financial Statement / Press Release	3	4
Disclosure of Material Corporate Information		3
Failure to Disclose BOD Meeting Date to the Market	4	
Non-adherence to Major Shareholder Requirements		4
Non-adherence to Offering of Securities' Requirements	3	1
Publication of Financial Statement	1	3
Submission of Annual Verification Report	11	3
Submission of Register of Interest	7	4
Other	6	2
Declaration of Annual Dividend	1	
Failure to Notify Market of Change in BOD Meeting	1	
Non-adherence to Treasury Share Transactions' Requirements	2	1
Non-adherence to Market Making Requirements	1	
Unacceptable Conduct when Dealing with the CBB	1	
Suspicious Trading / Conduct		1
Grand Total	35	24

As outlined in the above table, total non-compliances by listed companies in 2019 (35 contraventions) has increased from 2018 (24 contraventions) by 11 cases, the majority of which the CMSD attributes to listed companies' negligence in submitting the Register of Interest and the Annual Verification Report on a timely basis.

➤ **Temporary Suspension of Trading**

The CBB may decide to suspend securities' trading in the interest of the public and for the protection of investors. Table 2 below denotes the notable suspension cases of 2018-2019:

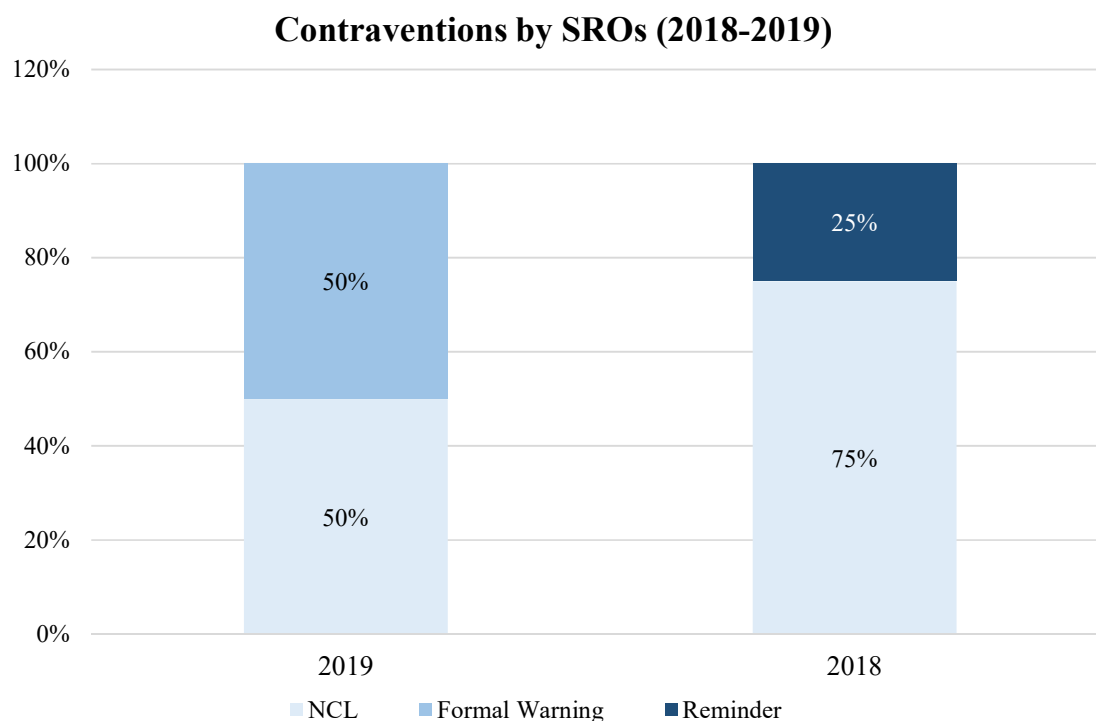
Table 2

Suspension Cases (2018-2019)			
Nature of Suspension	Listed Company	2019	2018
Publication of Financial Statement	BMB		1
	ARIG		1
	AUB		1
Disclosure of Material Corporate Information	ARIG	2	
	ITHMR	1	
	SALAM	1	
	BISB	1	
Grand Total		5	3

2.2. Self-Regulatory Organizations (SROs)

With reference to MIE-A.4.2 of the Market Surveillance, Investigation and Enforcement Module of Volume 6 of the CBB Rulebook, the CBB's supervisory role includes licensing, inspection, investigation and enforcement and regulatory oversight on the licensed exchanges, licensed market operators, licensed clearing houses and depositories and other SROs. In line with this, during 2018-2019, the CBB addressed the following contraventions:

Figure 2



2.3. Members of SROs (Licensed Brokers)

With reference to MIR-A.4.2 of the Market Intermediaries and Representatives Module (“MIR Module”) of Volume 6 of the CBB Rulebook, the CBB's supervisory role includes licensing, inspection, investigation and enforcement and regulatory oversight on members of SROs. In line with this, during 2019 and from a supervisory standpoint, the CBB addressed a case pertaining to one of its licensed brokers.

In June 2019, certain violations were flagged by the CBB's Inspection Directorate in their Examination Report, following an on-site examination conducted on one of the licensed brokers. The uncovered violations comprise of infrastructural, systemic and controls-related deficiencies. As such, and following a referral made by the CMSD to the Enforcement Decision Review Committee (“EDRC”), the concerned licensed broker was issued a Formal Warning to address the contraventions of CBB's rules and guidelines which were identified by the examination.

3. Case Referrals, Escalation & Special Purpose Inspections



From a CMSD perspective, the Investigation and Enforcement team determines on a case by case basis whether the contravention at hand requires further escalation following department-level enforcement, if any. Where a contravention is more serious in nature and requires the initiation of investigation proceedings and/or a formal enforcement action (including the imposition of a financial penalty), referrals are made to IE for consideration.

Upon IE's examination, it escalates certain contraventions by referring them to the CBB's Enforcement Decision Review Committee. The EDRC is the committee constituted by the CBB for the purpose of taking enforcement decisions of material significance, on behalf of the CBB. The EDRC makes independent decisions on matters relating to final enforcement actions as per the CBB Law, rules and regulations. Therefore, and subject to the EDRC's approval of the recommended enforcement action, CMSD undertakes to carry out the same. Given this, the table below details referrals to the EDRC during the years 2018-2019, wherein the number of referrals increased from 1 in 2018 to 6 in 2019:

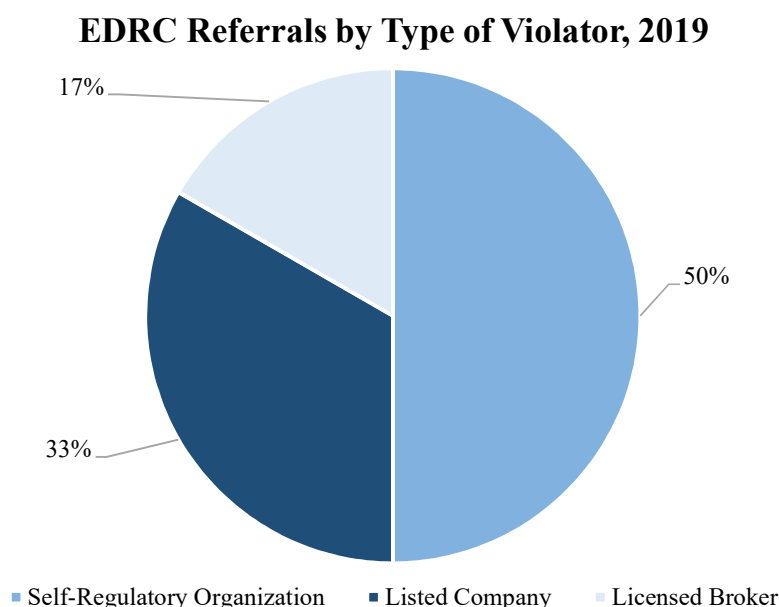
Table 3

EDRC Referrals (2018-2019)			
Year	Violator	Subject	Enforcement Outcome*
2018	Listed Company	Contravention of Disclosure Standards	Financial Penalty
2019	SRO	Late Submission of Financial Statements	Formal Warning
		Late Submission of Financial Statements	Formal Warning
		Non-Compliance with CMSD's Instructions	Formal Warning
	Listed Company	Non-adherence to Offering of Securities Requirements	Financial Penalty
		Unacceptable Conduct when Dealing with the CBB	Formal Warning
	Licensed Broker	Non-compliance with CBB's Rules and Guidelines	Formal Warning

*This is the enforcement action that was issued by the CMSD following the EDRC's approval and/or the Appeals Committee deliberations, where applicable.

As reflected in the above table, increased referrals to the EDRC are linked to a more streamlined escalation process whereby the CMSD aims to enhance the compliance of the various market participants through its enforcement regime. Furthermore, Figure 3 illustrates a breakdown of the EDRC referrals by type of violator in 2019, wherein half of the cases pertained to SROs and a third of them related to listed companies:

Figure 3



On another note, in given circumstances, IE's case evaluation gives rise to a need for a special-purpose inspection to be conducted on the concerned market participant to gather further information and documents necessary to reach a suitable enforcement action.

4. Imposition of Financial Penalties

➤ Imposition of Financial Penalty for Non-Adherence to Offering of Securities' Requirements

Over the course of conducting its supervisory duties, it has been noted that one of the listed companies' half yearly financial results reflect income booked relating to a particular private placement which has not yet secured the CMSD's no-objection on the use of the related offering document. Upon examination, it was confirmed that the listed company accepted commitments by way of subscription forms from investors prior to securing the necessary private placement memorandum ("PPM") approval. As such, the listed company in its capacity as an Investment Manager, Placement Agent and Receiving Bank, has failed to comply with the related provisions of the Offering of Securities Module ("OFS Module") of Volume 6 of the CBB Rulebook.

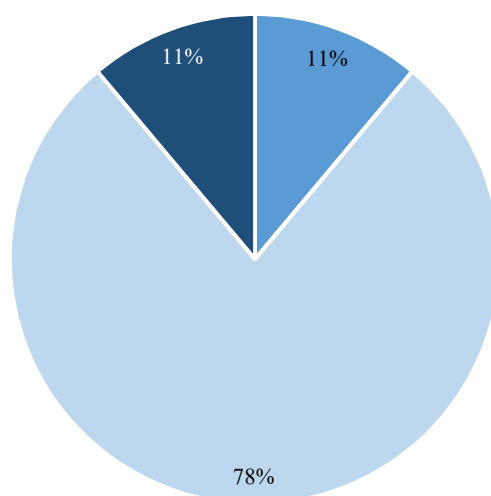
In response, the CMSD issued the listed company a Non-Compliance Letter dated 19th September 2019 which included a stop order in respect of the use of the abovementioned PPM. Additionally, the case was subsequently escalated for review by the Enforcement Decision Review Committee resulting in the imposition of a financial penalty of BHD 10,000 on 5th December 2019.

5. Complaint Handling & Public Awareness Initiatives

The CMSD places great importance on complaints which relate to potential cases of contravention of the CBB Law, rules and regulations or SRO's business rules. The below figure outlines a breakdown of the complaints handled by the CMSD in 2019 by subject area, wherein the vast majority pertains to entities promoting/engaging in financial services without a CBB license:

Figure 4

Capital Markets-Related Complaints Handled, 2019



■ Private Placement Issues ■ Unauthorized Securities' Activities by Fraudulent Institution ■ Operational Error by SRO

While carrying out its examination of the said complaints, the CMSD has endeavoured, in a number of occasions, to engage with its GCC counterparts for both notification purposes (where complaints are raised by GCC citizens and therefore present cross-border regulatory issues or where complaints involve GCC licensees/market participants) and for the purpose of escalating the complaint-handling process to the relevant authorities for resolution.

Likewise, as an effective way of raising public awareness, reinforcing confidence in the financial system and reducing risks and financial crime, the CBB issued two press releases relating to a couple of the complaints examined in 2019:

	<p>CBB warns consumers against dealing with unlicensed market intermediary - National Investment Bank (June 18th, 2019)</p> <p>Alert</p>
	<p>CBB warns consumers against dealing with unlicensed financial institution - United Investment Bank (July 21st, 2019)</p> <p>Alert</p>

Through these press releases CBB warned consumers against dealing with unlicensed financial institutions that market investment in securities (and other financial services) and stressed the need for consumers to ensure the utmost care and caution, and take into consideration the risks, when investing, dealing or trading any amounts in securities or foreign exchange with any person, persons, institutions, companies or websites, including social media, and ensuring that they hold the necessary licenses from the Central Bank of Bahrain to engage in such activities. Ultimately, consumers were encouraged to visit the register of licensed financial institutions on CBB's website (www.cbb.gov.bh) in order to ensure the above.



6. Conclusion

In conclusion, the CMSD carefully considers the appropriate regulatory response to potential breaches of rules or market misconduct. Seeing as each non-compliance or suspected case is unique and involves a variety of different circumstantial elements, the CMSD strives to be as consistent and transparent as possible in the related decision-making. The CMSD's most prevalent role revolves around ensuring effective implementation and enforcement of CBB's regulatory requirements for the capital markets, as such, it continuously seeks to develop and improve its regulatory framework (including the clear articulation of regulatory requirements to all stakeholders, imposition of sanctions and enforcement of disciplinary actions) in line with regional and international counterparts and benchmarks. Ultimately, and in line with findings of this annual report, the CMSD, alongside key stakeholders, will work to improve standards of compliance in the market, reduce recurrences and overall boost market awareness of its regulatory framework – with the core objective of solidifying the efficiency of one of Bahrain's aspired key financial drivers, the capital markets.