



مصرف البحرين المركزي

Central Bank of Bahrain

Compliance and Enforcement Annual Report 2022

For the period ended December 2022



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1. Introduction



The Capital Markets Supervision Directorate's ("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 ("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"), Capital Market

Service Providers ("CMSPs"), and market participants. 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 2021-2022 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 2022

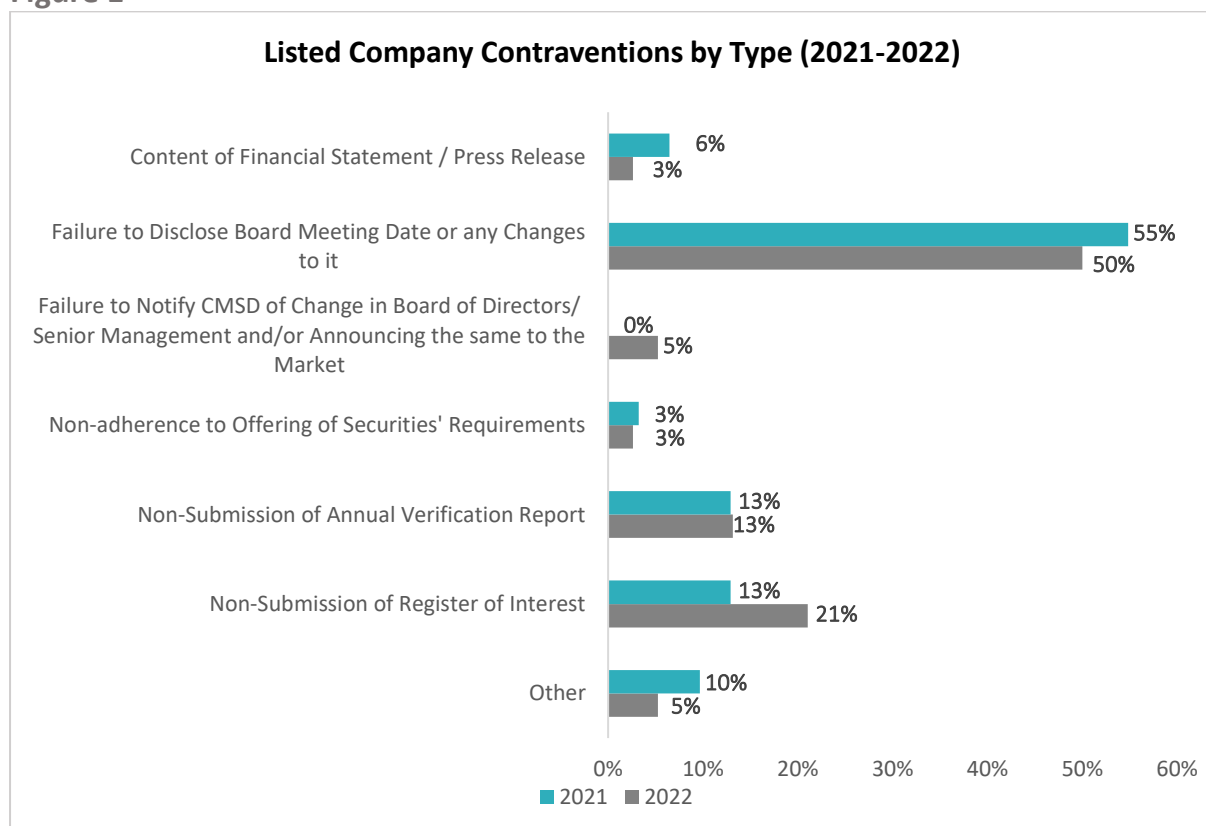
With reference to MIE-3.1.8 of the Market Surveillance, Investigation and Enforcement (“MIE”) Module of Volume 6 of the CBB Rulebook, in deciding on any given regulatory and enforcement response, the CBB is dependent on examining the circumstance of each individual contravention against Law No. (64) 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 the CBB Law, the CBB Rulebook requirements or any other regulations, resolutions and directives issued in connection with implementing thereof.

2.1. Listed Companies

- Most Recurring Contraventions by Type

Figure 1 below illustrates the overall trend of CMSD-addressed contraventions in the years 2021-2022 across Listed Companies:

Figure 1



As illustrated above, the most common non-compliances across Listed Companies for 2021 were concentrated on the Failure to Disclose the Date or any Change to the Meeting of Board

of Directors, making up more than half of all 2021 contraventions. This is followed by two periodic returns, which combined make up a quarter of the contraventions of 2021 – Non-Submission of the Register of Interest and Non-Submission of the Annual Verification Report.

Similarly, in 2022, making up half of the contraventions for the year is the Failure to Disclose the Date or any Change to the Meeting of Board of Directors, being followed by Non-Submission of Register of Interest, which increased in terms of the number of cases from 2021. It is also to be noted that the contraventions of the Non-Submission of the Annual Verification Report and Non-adherence to Offering of Securities' Requirements in 2021 and 2022, stayed stable at 13% and 3%, respectively.

Table 1 below outlines the abovementioned cases further (with more elaboration included in the Appendices):

Table 1

Listed Company Contraventions by Type (2021-2022)		
Contraventions by Type	2022	2021
Content of Financial Statement / Press Release	1	2
Failure to Disclose the Board Meeting Date or any Changes to it	19	17
Failure to Notify the CMSD of Change in Board of Directors/ Senior Management and/or Announcing the same to the Market	2	
Non-adherence to the Offering of Securities' Requirements	1	1
Non-Submission of the Annual Verification Report	5	4
Non-Submission of the Register of Interest	8	4
Other	2	3
Non-adherence to the CBB's Disclosure Standards	1	1
Non-publication of the Financial Statements		1
Improper Pattern of Treasury Share Repurchases		1
Not Notifying the CBB Regarding a Change of a Controller's Ownership	1	
Grand Total	38	31

As outlined in the above table, total non-compliances by Listed Companies in 2022 (38 contraventions) has increased from 2021 (31 contraventions) by 22.58%.

- **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 3 below denotes the notable suspension cases of 2022:

Table 2

Suspension Cases (2022)			
Nature of Suspension	Listed Company	Date of Suspension	Date of Resumption of Trading
Pending Clarification on an Issued Announcement	ALBA	22 June 2022	23 June 2022
Publication of Financial Results	ITHMR	15 August 2022	29 August 2022
Commencement of Offer Period in Relation to Kuwait Finance House K.S.C.P's Acquisition Offer	AUB	18 August 2022	<i>Still Suspended</i>
Postponement of its Board of Directors' Meeting to Approve the Interim Financial Statements until the Formation of the Company's Board of Directors	POLTRY	14 November 2022	12 December 2022
Grand Total	4		

2.2. Crypto-Asset Licensees

With reference to CRA-B.1.2 of the Crypto-Asset ("CRA") Module of Volume 6 of the CBB Rulebook, the regulatory framework covers rules for the licensing and supervision of Crypto-Asset Service Providers including trading, dealing, advisory and portfolio management in Crypto-Assets as principal, agent or custodian. In line with this, during 2022 and from a supervisory standpoint, the CBB addressed the following contraventions to Crypto-Asset Service Providers:

Table 3

Crypto-Asset Service Provider Contraventions by Type (2021-2022)		
Contraventions by Type	2022	2021
Non-adherence to the Marketing and Promotion Requirements	2	1
Non-Submission of the Financial Statements	1	
Non-adherence to the Approved Persons' Requirements	1	1
Breach of the Anti-Money Laundering Module Requirements		1
Other	3	1
Non-adherence to the CRA Module Provisions related to the Immediate and Prompt Notification to the CBB	1	
Non-submission of the Professional Indemnity Coverage	1	
Breach in the Process of Listing of the Crypto-Asset	1	
Non-Adherence to the CRA Module Requirements		1
Grand Total	7	4

As outlined in the above table, the total contraventions by Crypto-Asset Service Providers in 2022 (7 contraventions) has increased from 2021 (4 contraventions) by 75%.

3. Key Case Handling & Escalation

The table below details key cases handled by CMSD-wide departments as well as those referred for escalation to the Enforcement Decision Review Committee (“EDRC”) during the years 2021-2022, wherein the number of referrals were 4 in 2021 and 7 in 2022:

Table 4

EDRC Referrals (2021-2022)			
Year	Violator	Subject	Enforcement Outcome*
2021	Listed Company	Late Disclosure of the Board of Directors’ Meeting Date in Relation to the Third Quarter of Year 2021	Per Diem Financial Penalty
	Listed Company	Late Disclosure of the Board of Directors’ Meeting Date in Relation to the Third Quarter of Year 2021	
	Listed Company	Late Disclosure of the Board of Directors’ Meeting Date in Relation to the Third Quarter of Year 2021	
	Listed Company	Non-adherence to the CBB’s Disclosure Standards	Formal Warning
2022	SRO	Non-adherence to CSD-3.1.1 (b,c,i) of the Clearing, Settlement & Central Depository Module of Volume 6 of the CBB Rulebook	Financial Penalty
	Listed Company	Late Submission of the Annual Verification Report of Key Persons’ Register	Per Diem Financial Penalty
	Listed Company	Late Submission of the Annual Verification Report of Key Persons’ Register	Per Diem Financial Penalty
	Listed Company	Late Submission of the Annual Verification Report of Key Persons’ Register	Per Diem Financial Penalty
	Listed Company	Late Submission of the Annual Verification Report of Key Persons’ Register	Per Diem Financial Penalty
	Licensed Crypto-Asset Service Provider	Non-adherence to CRA -10.2.4 (b) of the CRA Module of Volume 6 of the CBB Rulebook.	Formal Warning
	Listed Company	Late Disclosure of the Board of Directors’ Meeting Date in Relation to the Third Quarter of Year 2022	Per Diem Financial Penalty

*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 with the recent July 2021 Amendments of the MIE Module of Volume 6 of the CBB Rulebook which include Listed Companies to the scope of Financial Penalties, as the CMSD aims to enhance the compliance of the various market participants through its enforcement regime.

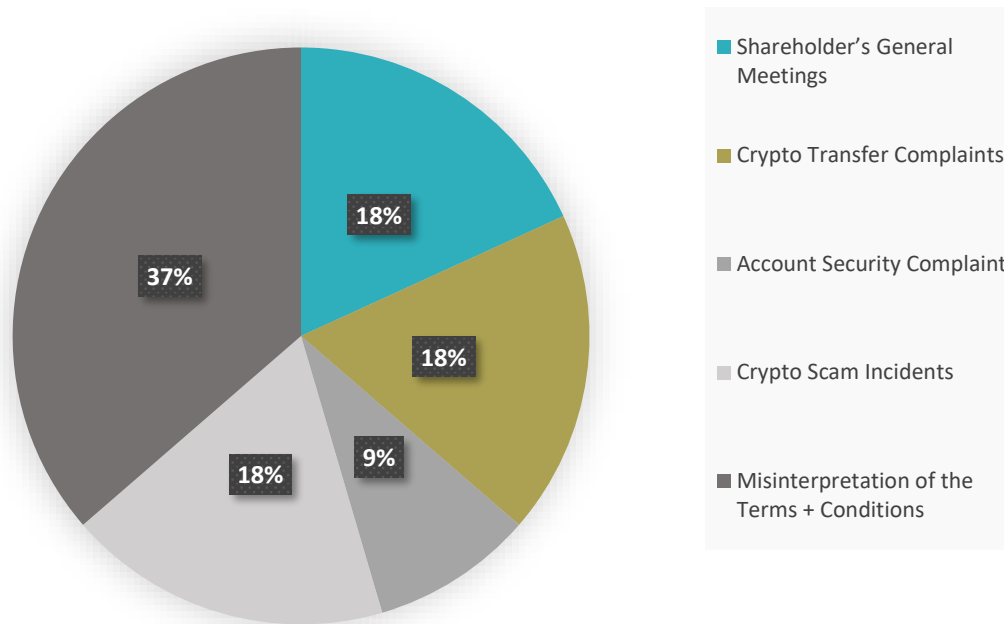
4. Capital Market-Related Complaints



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. Supplementing the CBB's Consumer Protection Unit's role in handling complaints CBB-wide, the below figure summarizes the complaints, which were received and examined by the CMSD in 2022:

Figure 2

Capital Markets' Related Complaints Examined, 2022



5. Conclusion

In conclusion, the CMSD continues to be committed to more carefully consider 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 in line with regional and international counterparts. As always, and in line with the findings of this annual report, the CMSD, alongside key stakeholders, will work to further 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 Bahrain's capital markets.



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