



COMPENSATION MODULE



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MODULE	CP:	Compensation
CHAPTER	CP-A:	Introduction

CP-A.1 Purpose

Executive Summary

CP-A.1.1 The purpose of this Module is to set out a summary of rules and regulations establishing a Deposits and Unrestricted Investment Accounts Protection Scheme (the ‘Scheme’) for compensating Eligible account holders when the banks (referred to under Section CP-2.1) are unable, or are likely to be unable, to satisfy claims against them. For the purpose of this Module, Eligible account holders refer to Eligible Depositor and/or Investor as defined under Paragraph CM-2.1.5.

CP-A.1.2 The body established to operate and administer the compensation scheme is the Deposits and Unrestricted Investment Accounts Protection Board (the ‘Board’). This Module describes the rules that would allow the Board to:

- (a) Administer and implement the scheme; and
- (b) Establish rules of operation.

CP-A.1.3 This Module also describes:

- (a) Who is eligible for receiving compensation;
- (b) How the scheme will be funded;
- (c) Who the contributing banks are; and
- (d) What are contributing banks’ responsibilities regarding the implementation of the scheme.

Legal Basis

CP-A.1.4 The legal basis for this Module is the Regulation issued pursuant to CBB Resolution No.(34) for the year 2010 with respect to promulgating a Regulation protecting deposits and unrestricted investment accounts, which in turn was issued pursuant to Article 188 of the Central Bank of Bahrain and Financial Institutions Law 2006 (‘CBB Law’). The Regulation is applicable to all retail banks, conventional and Islamic.

CP-A.1.5 For an explanation of the CBB’s rule-making powers and different regulatory instruments, see Section UG-1.1.



MODULE	CP: Compensation
CHAPTER	CP-A: Introduction

CP-A.2 Key Requirements

CP-A.2.1 The Board is, subject to and in accordance with the terms and conditions of the Regulation, responsible for the activities set out under Paragraph CP-1.1.4.

CP-A.2.2 The Board will convene and be ready to carry out its duties if either of the events set out in Section CP-1.2 arise.

CP-A.2.3 The Scheme will apply to Eligible Accounts (as defined in Paragraph CP-2.1.2) held with the Bahrain offices of retail banks which are licensed by the CBB.

CP-A.2.4 Upon the convening of the Board in accordance with Section CP-1.2, the Board calculates the total amount of compensation to be paid under the Scheme in the case of the relevant bank, as well as the amount of compensation payable under the Scheme to each Eligible Depositor and/or Investor of such relevant bank.

CP-A.2.5 Upon receipt by the Board of confirmation from the (Lead) Mandated bank that the actions referred to in Section CP-2.4 have been completed, each Eligible Depositor and/or Investor is sent a certificate in duplicate (included under Part B, Supplementary Information as Appendix CP-1A) by the Board informing such Eligible Depositor and/or Investor of the amount of compensation payable to him/her under the Scheme in respect of his/her Eligible Account(s) with the relevant bank.

CP-A.2.6 The CBB requires all Islamic retail bank licensees referring (directly or indirectly) to the protection of Deposits and unrestricted investment accounts in related marketing materials and in general notices featured within banking halls and in account documentation, including Annual Reports, to prominently disclose the statement set out under Paragraph CP-2.5.1.



MODULE	CP: Compensation
CHAPTER	CP-A: Introduction

CP-A.3 Module History

CP-A.3.1 This Module was first issued in July 2004 by the BMA and updated in October 2007 to reflect the transfers of responsibilities to the CBB. Following the issuance of the Resolution No.(34) in respect of protecting Deposits and Unrestricted Investment Accounts in December 2010, the Module was amended in October 2012 to be in line with the new Regulation and to include previous requirements that were in place in the originally issued Module CP. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

CP-A.3.2 The most recent changes made to this Module are detailed in the table below:

Summary of Changes

Module Ref.	Change Date	Description of Changes
CP-A to CP-2	10/2012	Amendments due to the introduction of Resolution No.(34) of 2010.
CP-2.3	04/2014	Added requirement for eligible accounts report for the deposits/unrestricted investment accounts protection scheme.

Evolution of the Module

CP-A.3.3 Prior to the development of the Rulebook, the CBB had issued various circulars representing regulations covering the operations and establishment of the Deposit Protection Scheme and the Deposit Protection Board. These circulars have now been consolidated into the Compensation Module. These circulars and their evolution into this Module are listed below:

Circular Ref.	Date of Issue	Module Ref.	Circular Subject
OG/423/93	28 Nov 1993	CP-1 – CP-2	Deposit Protection Scheme (the “Scheme”)
OG/425/94	21 Dec 1994	CP-2.4	Deposit Protection

Effective Date

CP-A.3.4 The contents of this Module were effective from their date of issuance.

CP-A.3.5 Capitalised terms used in this Module shall, save as the context requires otherwise, have the meanings ascribed to them in the Regulation.

CP-A.3.6 In the event of an inconsistency between the rules of this Module and the rules of the Regulation, the rules of the Regulation shall prevail.



MODULE	CP:	Compensation
CHAPTER	CP-B:	Scope of Application

CP-B.1 Scope of Application

CP-B.1.1

The contents of this Module – unless otherwise stated – apply to all Islamic retail bank licensees and their retail operations in Bahrain.



MODULE	CP:	Compensation
CHAPTER	CP-1:	Deposits and Unrestricted Investment Accounts Protection Board

CP-1.1 Constitution of the Board

CP-1.1.1

The contents of this Chapter set out the details of the constitution, authority and administration of the Board.

CP-1.1.2

The Board is, subject to and in accordance with the terms and conditions of the Regulation, responsible for the protection of Eligible Accounts, including determining:

- (a) What contributions Islamic retail bank licensees should make to the Islamic Fund;
- (b) The amount of compensation to be paid out to Eligible account holders; and
- (c) Any additional rules under which the Board will operate.

CP-1.1.3

The Board consists of eleven persons appointed by the Governor of the CBB, whose period of membership must be for a three-year renewable period:

- (a) Two representatives of the CBB, one of whom should be Chairman and the other the Deputy Chairman of the Board;
- (b) Four representatives of retail banks in Bahrain, who should be appointed by the Governor;
- (c) Two representatives of Government, the first representing the Ministry of Finance, the second representing the Ministry of Industry and Commerce, both should be nominated by their respective Ministers; and
- (d) Three independent persons, not from the above categories, appointed by the Governor.

CP-1.1.4

The Board administers the two Funds established in accordance with Article 13 of the Regulation, and is responsible for all decision-making and accounting treatment in respect of the two Funds. No liability attaches to the CBB as a result of the Board managing the two Funds.



MODULE	CP:	Compensation
CHAPTER	CP-1:	Deposits and Unrestricted Investment Accounts Protection Board

CP-1.2 Convening of the Board

CP-1.2.1

The Board must be convened and must commence its responsibilities by following the compensation process for the Eligible account holders upon:

- (a) Any Islamic retail bank licensee being put under administration by the CBB; or
- (b) Any Islamic retail bank licensee being put into liquidation.

In each case, such bank hereinafter referred to as a “defaulting bank”.



MODULE	CP: Compensation
CHAPTER	CP-1: Deposits and Unrestricted Investment Accounts Protection Board

CP-1.3 Voting by the Board

CP-1.3.1

The Board meets as often as is necessary to carry out its duties under the Regulation referred to in this Module and takes decisions by a simple majority vote of those present at any meeting thereof provided that, in the event of a tie, the Chairman will have the casting vote.

CP-1.3.2

Decisions of the Board are binding and are not subject to appeal.



MODULE	CP:	Compensation
CHAPTER	CP-2:	Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.1 Application of the Scheme

CP-2.1.1 The Scheme will apply to Eligible Accounts (as defined in Paragraph CP-2.1.2 below) held with the Bahrain offices of Islamic retail bank licensees which are licensed by the CBB.

CP-2.1.2 For Islamic retail bank licensees, Eligible Accounts means any Deposit Account (as defined in Paragraph CP-2.1.3) and Unrestricted Investment Account, and any other deposits or accounts similar in nature and which have similar characteristics which are approved by the CBB, regardless of currency, with the exception of bearer certificates of deposit.

CP-2.1.3 For the purpose of Paragraph CP-2.1.2, Deposit Account means the account that is defined being a deposit in accordance with the CBB Resolution No.(23) of 2009 in respect of Definition of Deposit.

CP-2.1.4 Without prejudice to Paragraph CP-2.1.1 above, the Board may, at its discretion, exclude (in whole or in part) from compensation payments to any Eligible account holder of the defaulting bank in Bahrain who are entitled to claim in a similar scheme established in another jurisdiction, where such scheme covers the deposit liabilities and unrestricted investment accounts of the Bahrain offices of such relevant bank.

CP-2.1.5 For Islamic retail bank licensees, Eligible Depositor and/or Investor means any natural person, (resident or non-resident), holding an Eligible Account(s) with an Islamic retail bank in the Kingdom. It does not include Deposits and Unrestricted Investments Accounts held with an Islamic retail bank's foreign branches operating outside the Kingdom.

CP-2.1.6 Without prejudice to Paragraph CP-2.1.1, the Board may, at its discretion, exclude (in whole or in part) from the requirement to contribute to the Islamic Fund, any Islamic retail bank licensee in Bahrain whose Eligible Accounts (in whole or in part) are covered by a similar scheme established in another jurisdiction provided that evidence of such coverage is provided to the Board to its satisfaction.



MODULE	CP: Compensation
CHAPTER	CP 2: Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.1 Application of the Scheme (continued)

CP-2.1.7

Without prejudice to the provisions of Paragraph CP-2.1.2, the Scheme will not apply to Deposits and unrestricted investment accounts which have, in the opinion of the Board, been illegally gained and/or relate to illicit or illegal matters. The Scheme will also not apply to:

- (a) Accounts of shareholders with 10% or more shareholding (ordinary or preference), board members and senior managers of the defaulting bank; and/ or
- (b) Accounts of persons whose identity cannot be ascertained.



MODULE	CP:	Compensation
CHAPTER	CP 2:	Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.2 Coverage of the Scheme

CP-2.2.1

Each Eligible account holder shall be entitled under the Regulation to claim an amount equivalent to the amount deposited and/or invested by him in an Eligible Account save that no Eligible account holder shall be entitled to receive more than BD20,000 (Twenty Thousand Bahraini Dinars) from the total amount of his Eligible Account held with the defaulting bank regardless of the number and currency of Deposits and unrestricted investment accounts. Other currencies shall be converted into Bahraini Dinars at the exchange rate on the date on which the CBB determines that the Islamic retail bank licensee is a defaulting bank.

CP-2.2.2

In calculating the amount payable to an Eligible account holder, the Board shall have the right to set-off the debts of the Eligible account holder with the defaulting bank and deduct any expenses incurred by the Board in paying out such amounts.

CP-2.2.3

A joint Eligible Account should be treated as a single Eligible Account.

CP-2.2.4

If the Board is satisfied that a person is a trustee of an Eligible Account with a defaulting bank, and that the beneficial owner of any such Account has no other Eligible Account with the defaulting bank, the Board shall deem such beneficial owner as a separate Eligible account holder. However, in the event that a beneficial owner of any of such Eligible Account held in the name of the trustee is the same owner of other Eligible Account at the defaulting bank, such accounts, including the account(s) registered in the name of trustee, shall be treated as a single Eligible Account.

CP-2.2.5

No transfer of any part of an Eligible Account shall be considered valid if, in the opinion of the Board, the purpose of such transfer is to enable any person, including an Eligible account holder, to gain an advantage that is not permitted or intended by this Module.



MODULE	CP: Compensation
CHAPTER	CP 2: Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.3 The Deposits and Unrestricted Investment Accounts Protection Funds

CP-2.3.1 For the purpose of the Scheme, the Board administers two separate funds referred to as the “Conventional Banks Fund” and the “Islamic Banks Fund” as defined under Article 1 of the Regulation. Each Fund shall constitute a separate legal entity and shall have an independent balance sheet from the CBB.

CP-2.3.2 Islamic retail bank licensees collectively contribute an initial aggregate amount of BD20 million (Twenty Million Bahraini Dinars) over a period of fifteen years and title to such monies once contributed shall legally belong to the Islamic banks Fund.

CP-2.3.3 The Board periodically assesses the size of the Islamic Fund in relation to liabilities to be covered and, where appropriate, makes recommendations to the CBB for increasing or decreasing the amount of the Islamic Fund. No such adjustments to the aggregate amount BD80 million (Eighty Million Bahraini Dinars) for both Funds shall be made without the express approval of the CBB.

CP-2.3.4 The contribution of each Islamic retail bank licensee in the total amount of the Fund is determined on an annual pro-rata basis of the total Eligible Accounts of all Islamic retail bank licensees in Bahrain.

CP-2.3.4A The CBB provides the Board with the necessary data to allow it to determine the amounts of contributions each Islamic retail bank licensee must make. The Board may allow the Islamic retail bank licensees to make its contribution in the form of quarterly installments which shall be charged against the profit & loss account of the banks.

CP-2.3.4B Each Islamic retail bank licensee must submit to the CBB within 2 months of the financial year end a report on all eligible accounts in accordance with Section BR-1.4.

CP-2.3.5 No contribution (or part thereof) is refundable to an Islamic retail bank licensee in any circumstance.

CP-2.3.6 Islamic retail bank licensees pay the contributions referred to in Paragraph CP-2.3.4 within the periods specified by the Board. Each Islamic retail bank licensee is notified of the amount of its calculated contribution as well as the date of payment thereof.



MODULE	CP:	Compensation
CHAPTER	CP 2:	Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.3 The Deposits and Unrestricted Investment Accounts Protection Funds (continued)

CP-2.3.7 In the event of failure of any Islamic retail bank licensee in the payment of the full contribution during the periods specified by the Board, the CBB may take enforcement action against that bank, including the imposition of administrative fines in accordance with Article 129 of the CBB Law and, in cases of repeated violation, withdrawal of the licence granted by the CBB.

CP-2.3.8 In the event that a new Islamic retail bank licensee joins the Islamic Fund during any year, the Board determines the contribution of that bank to the Fund on the basis of the minimum payment made by other participating banks during that year for the remaining period of the year after dividing the full contribution amount over the number of months of a year. At the beginning of the following year, there will be an assessment of that bank's contribution based on the size of its Eligible Accounts base.

CP-2.3.9 The Board determines the investment policy of the Funds and the CBB is responsible for implementing such policy without receiving any commission or charges in return. Investments made from the Islamic Fund must comply with Islamic Shari'a principles and be under the supervision of the CBB's Shari'a Board.



MODULE	CP: Compensation
CHAPTER	CP 2: Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.4 Procedures for Making Claims under the Scheme

CP-2.4.1

Upon the Board following the compensation process in accordance with Article 4 of the Regulation, the Board calculates the total amount of compensation payable thereunder to each Eligible account holder of the defaulting bank. The total amount of compensation payable shall be remitted to the Bank(s) designated by the Board to act as a Lead Mandated Bank and/or Mandated Bank(s) for processing compensation payments to Eligible account holders of the defaulting bank.

CP-2.4.2

For the purposes of this Module, Lead Mandated Bank means the bank appointed by the Deposits and Unrestricted Investment Accounts Protection Board to administer the procedures to make compensation payments.

CP-2.4.3

For the purposes of this Module, Mandated Bank(s) means such other banks mandated by the Lead Mandated Bank to assist and/or participate in the processing of compensation payments.

CP-2.4.4

In the event of the amounts of the Islamic Fund being insufficient to cover the total compensation payable in accordance with the Regulation, the Board may cover the shortfall by borrowing (upon such terms and conditions as it considers appropriate) and such borrowings shall be reimbursed by future contributions from the Islamic retail bank licensees as the case may be.

CP-2.4.5

Following the completion of the calculation referred to in Paragraph CP-2.4.1, the Lead Mandated Bank and/or Mandated Bank(s) pays, into a special account to be held by it/them, the total amount allocated to compensate the Eligible account holders with the defaulting bank.

CP-2.4.6

Upon receipt by the Board of confirmation from the Lead Mandated Bank that the requirements of Paragraphs CP-2.4.1 to CP-2.4.3 have been satisfied, the Board sends to each Eligible account holder a certificate in the form set out in Appendix CP-1A, informing each Eligible account holder of the amount of compensation due to him/her hereunder in respect of his/her Eligible Account(s) with the defaulting bank.



MODULE	CP: Compensation
CHAPTER	CP 2: Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.4 Procedures for Making Claims under the Scheme (continued)

CP -2.4.7

Appendix CP-1A contains instructions as to the method by which, and time within which, the compensatory amount referred to therein may be collected by the Eligible account holder from the Lead Mandated Bank or Mandated Bank(s). No amounts of compensation shall be payable hereunder after the expiry of the period referred to in such certificate, which period shall not be more than 12 months.

CP-2.4.8

Appendix CP-1B, “Customer Acknowledgment and Waiver” form is signed by an Eligible account holder, and constitutes a waiver of any claims he (or his successors or assigns) may wish to make against the Lead Mandated Bank and/or the Mandated Bank(s) and/or the Board in the future in respect of the amount being paid to him, and, a waiver to the Board of all his rights and interests related to that proportion of his claim against the defaulting bank.

CP-2.4.9

Upon receipt of the signed Customer Acknowledgment and Waiver from an Eligible account holder, the Lead Mandated Bank and/or the Mandated Bank(s) shall pay the amount referred to in the certificate to such Eligible account holder.

CP-2.4.10

Once an Eligible account holder has waived his right to claim against the defaulting bank to the Board (pursuant to the Customer Acknowledgment and Waiver referred to above), no bank may deny the rights of the Board to recover the debt so waived by way of action against the bank in liquidation.

CP-2.4.11

The Lead Mandated Bank must reimburse the Islamic Fund for any excess monies it has received during the mandate period.

CP-2.4.12

The liquidator of the defaulting bank must, in making any payments to Eligible account holders thereof in liquidation of such bank, be responsible for ensuring that Eligible account holders shall not receive any payments in liquidation for any amount that constitutes a duplicate reimbursement that they have been compensated in accordance with the terms of the Regulation.



MODULE	CP:	Compensation
CHAPTER	CP 2:	Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.5 Disclosure of Scheme's Applicability

CP-2.5.1

All advertisements or other promotional publications issued by Islamic retail bank licensees in the Kingdom which contain an invitation to make deposits and unrestricted investment account with such banks and refer, directly or indirectly, to the Regulation Protecting Deposits and Unrestricted Investment Accounts hereunder, shall contain the following statement:

“Deposits and unrestricted investment accounts held with [name of Islamic retail bank licensee] in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No.(34) of 2010.”



MODULE	CP:	Compensation
CHAPTER	CP 2:	Deposits and Unrestricted Investment Accounts Protection Scheme

CP-2.6 Other Provisions

CP-2.6.1

Save as otherwise set out above, nothing in this Module shall affect the rights of Eligible account holders of a defaulting bank to claim the remaining proportion of their total claims as creditors in the liquidation of the defaulting bank, regardless of the basis on which such claim is made.

CP-2.6.2

The provisions of Article 119 of the CBB Law relating to confidential information shall apply to all matters discussed, decisions reached and records kept by the Board in accordance with the terms of Regulation.

CP-2.6.3

The Board is entitled to make subsidiary rules for the proper and regular enforcement of the Regulation and must be empowered to hear any dispute in relation to the application of the Regulation, without prejudicing the right of the person concerned to take judicial proceedings.

CP-2.6.4

The Regulation does not apply retrospectively to banks operating in the Kingdom which are already under administration or are being liquidated prior to the effective date of the Regulation.



ENFORCEMENT MODULE



MODULE:

EN (Enforcement)

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MODULE:

EN (Enforcement)

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MODULE	EN:	Enforcement
CHAPTER	EN-A:	Introduction

EN-A.1 Application

Executive Summary

EN-A.1.1 This Module sets out the Central Bank of Bahrain's ('CBB') approach to enforcement, and the mechanisms used by the CBB to address failures by licensees to comply with its regulatory requirements. The purpose of such measures is to encourage a high standard of compliance by the CBB licensees, thus reducing risk to their customers and the rest of the financial system.

EN-A.1.2 This Module provides support for all other Modules of the Rulebook.

Legal Basis

EN-A.1.3

This Module contains the CBB's Directive (as amended from time to time) relating to enforcement and penalties and administrative provisions under Articles 125 to 132 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable as follows. Chapters EN-1 to EN-4 and EN-6 to EN-9 inclusive apply to all Islamic bank licensees. Chapters EN-2 to EN-5 and EN-10 apply to the Directors and employees of all Islamic bank licensees.

EN-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



MODULE	EN: Enforcement
CHAPTER	EN-A: Introduction

EN-A.2 Module History

EN-A.2.1 This Module was first issued on 1st January 2005 as part of the Islamic principles volume. All regulations in this volume have been effective since this date. All subsequent changes are dated with the month and year at the base of the relevant page and in the Table of Contents. Chapter 3 of Module UG provides further details on Rulebook maintenance and control.

EN-A.2.2 A list of the most recent changes made to this Module are detailed in the table below:

Module Ref.	Change Date	Description of Changes
EN-7	07/2006	Addition of procedures for “Appointed Experts” (relocated from AU 4).
EN-A	10/2007	New references to the CBB Law and new Rule categorising this Module as a Directive.
EN-1, 3, 4, 6-10.	10/2007	Administrative changes to sections as a result of the new CBB Law
EN-7.1 and 7.2	01/2009	Minor amendments due to new Role of Reporting Accountants chapter in Module AU
EN	10/2010	Various minor amendments to ensure consistency in CBB Rulebook.
EN-A.1.3 and EN-A.2.4	10/2010	Correction of typo(s)
EN-6.2A	10/2010	Added new Section on financial penalties for date sensitive requirements
EN-A.1.3	01/2011	Clarified legal basis.
EN-6.2A.7	04/2011	Clarified guidance on payment of annual fees.
EN-6.2A.7(a)	07/2011	Clarified due date when a weekend is involved.
EN-7	10/2011	Chapter has been streamlined and repetitive information has been eliminated and reference is now made to Section BR-6.5. The term ‘appointed experts’ has been substituted for the previously used ‘investigators’.
EN-10.3.1A	01/2013	Paragraph added to refer to Article 161 of the CBB Law.
EN-6.2A.2(c)	10/2013	Corrected cross reference.

Evolution of the Module

EN-A.2.3 The Module incorporates the requirements set out under Circular No. ODG/249/2004 dated 22 July 2004 relating to the CBB’s approach to enforcement.

Effective Date

EN-A.2.4

The contents in this Module are effective from 1st January 2005 or from the date given at the footer of the page where changes to Enforcement have occurred as a result of the issuance of Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006). However, the contents of other Modules referred to herein are effective from the dates specified in those respective Modules.



MODULE	EN: Enforcement
CHAPTER	EN-1: General Procedures

EN-1.1 The CBB’s Approach to Enforcement

EN-1.1.1 The CBB favours an open, pragmatic and collaborative relationship with its licensees, within the boundaries set by the CBB Law and Rulebook. Whilst the CBB wishes to avoid a legalistic and confrontational style of supervision, it believes that effective supervision requires effective enforcement of its requirements. Should licensees fail to cooperate, then the CBB will use the means described in this Module to achieve compliance.

EN-1.1.2 In the CBB’s view, it is generally neither practical nor effective to prescribe in detail the exact regulatory response for each and every potential contravention. There are a large number of potential contraventions. Moreover, individual circumstances are unlikely to be identical in all cases, and may warrant different responses.

EN-1.1.3 In deciding any given regulatory response, the CBB will nonetheless consistently assess the individual circumstance of each contravention against the principles described in this Module. The CBB’s overall approach is to take into account:

- (a) The seriousness of the contravention concerned (including the risks posed to the licensee’s customers and other market participants);
- (b) The compliance track record of the licensee concerned (including the extent to which the contravention reflects systemic weaknesses or reckless behaviour); and
- (c) Which measures are most likely to achieve the desired result of remedying the contravention.

EN-1.1.4 Such an approach reduces the risk of inappropriate enforcement actions, by allowing regulatory measures to be tailored to individual circumstances. By taking into account a licensee’s compliance record and attitude, it also creates positive incentives and encourages an open and collaborative approach. By assessing individual cases against the same broad principles, the CBB also aims to achieve an overall consistency in its regulatory actions.

EN-1.1.5 Underlying the CBB’s approach outlined in Paragraph EN-1.1.3 is the fundamental principle of proportionality. The enforcement measures contained in this Module are of varying severity, and will be used accordingly in keeping with the CBB’s assessment of the contravention. Thus, the CBB will reserve its most serious enforcement measures – such as cancellation of license or withdrawal of “fit and proper” status – for the most serious contraventions.



MODULE	EN: Enforcement
CHAPTER	EN-1: General Procedures

EN-1.1 The CBB's Approach to Enforcement (continued)

- EN-1.1.6 In keeping with the proportionality principle, and to the extent consistent with the CBB's enforcement approach in Paragraph EN-1.1.3, the CBB will usually opt for the least severe of appropriate enforcement measures. In most cases, the CBB expects to use a Formal Notice before resorting to more severe measures; the need for further measures will then usually be dependent on the response of the licensee or individual concerned.
- EN-1.1.7 Where a significant element of judgment is required to assess compliance with a requirement, then the CBB will usually discuss the matter with the licensee or individual concerned, before using one of this Module's enforcement mechanisms. This is likely to be the case, for example, with respect to requirements for adequate systems and controls. Conversely, where there are clear-cut contraventions of CBB requirements, then the CBB will usually move immediately to one or more of the enforcement mechanisms outlined in this Module. This is more likely to occur in cases where quantitative requirements - such as those relating to capital and/or large exposures - are concerned. In most such cases, though, the CBB also expects to continue an active dialogue with the licensee or individual concerned, aimed at remedying the contravention.
- EN-1.1.8 Except in the limited circumstances outlined below, the CBB will usually only apply an enforcement measure after the licensee or person concerned has been given a suitable opportunity to make representations. In the case of measures described in Chapters EN-8 to EN-10, certain procedures are set out in the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006).



MODULE	EN:	Enforcement
CHAPTER	EN-1:	General Procedures

EN-1.2 Prohibition on Insurance

EN-1.2.1 To help the CBB achieve the purpose of this Module, licensees may not enter into or make a claim under a contract of insurance that is intended to, or has the effect of, indemnifying them from the fines provided for in this Module.



MODULE	EN: Enforcement
CHAPTER	EN-1: General Procedures

EN-1.3 Publicity

- EN-1.3.1 The CBB will not as a matter of general policy publicise individual cases when it uses the measures set out in Chapters EN-2 to EN-7. However, in such cases the CBB may inform the licensee's external auditor and – in the case of licensees with overseas operations – relevant overseas regulators.
- EN-1.3.2 In exceptional circumstances, as allowed by Article 132 of the CBB Law, the CBB may decide to publicise individual cases when the measures set out in Chapters EN-2 to EN-7 are used, where there is a strong case that doing so would help achieve the CBB's supervisory objectives. In such instances, the CBB will usually allow the licensee or individual concerned the opportunity to make representations to the CBB before a public statement is issued.
- EN-1.3.3 With respect to the financial penalties provided for in Chapter EN-6, licensees are required to disclose in their annual report the amount of any such penalties paid to the CBB, together with a factual description of the reason(s) given by the CBB for the penalty.
- EN-1.3.4 Without prejudice to the above policy, the CBB may from time to time publish aggregate information on its use of measures set out in Chapters EN-2 to EN-7, without identifying the licensees or individuals concerned, unless their identities have previously been disclosed as provided for in Paragraphs EN-1.3.2 or EN-1.3.3.
- EN-1.3.5 By their nature, the penalties in Chapters EN-8 to EN-10 inclusive are public acts, once applied. The CBB will in these instances generally issue a public statement explaining the circumstances of the case.



MODULE	EN: Enforcement
CHAPTER	EN-2: Formal Warnings

EN-2.1 CBB Policy

EN-2.1.1 Formal warnings are clearly identified as such and represent the CBB's first level formal enforcement measure. They are intended to clearly set out the CBB's concerns to a licensee or an individual regarding an issue, and should be viewed by the recipient with the appropriate degree of seriousness.

EN-2.1.2 As indicated in Section EN-1.1, the CBB will usually discuss concerns prior to resorting to a formal enforcement measure, especially where a significant element of judgment is required in assessing compliance with a regulatory requirement.

EN-2.1.3 Where such discussions fail to resolve matters to the CBB's satisfaction, then it may issue a formal warning. Failure to respond adequately to a formal warning will lead the CBB to consider more severe enforcement measures. However, more severe measures do not require the prior issuance of a formal warning – depending on its assessment of the circumstances, the CBB may decide to have immediate recourse to other measures. Similarly, there may be circumstances where the CBB issues a formal warning without prior discussion with the licensee or person concerned: this would usually be the case where a clear-cut compliance failing has occurred.

EN-2.1.4 When considering whether to issue a formal warning, the criteria taken into consideration by the CBB therefore include the following:

- (a) The seriousness of the actual or potential contravention, in relation to the requirement(s) concerned and the risks posed to the licensee's customers, market participants and other stakeholders;
- (b) In the case of an actual contravention, its duration and/or frequency of the contravention; the extent to which it reflects more widespread weaknesses in controls and/or management; and the extent to which it was attributable to deliberate or reckless behaviour; and
- (c) The extent to which the CBB's supervisory objectives would be better served by issuance of a formal warning as opposed to another type of regulatory action.



MODULE	EN:	Enforcement
CHAPTER	EN-2:	Formal Warnings

EN-2.2 Procedure for Issuing Formal Warnings

EN-2.2.1 Proposals to issue formal warnings are carefully considered against the criteria listed in Section EN-2.1. They require approval of a Director or more senior CBB official, and include the statement “This is a formal warning as defined in Chapter EN-2 of the CBB Rulebook”.

EN-2.2.2 Depending on the issue in question, recipients of a formal warning may be required to respond to the contents of the warning. In any case, recipient have the right to object to or challenge a formal warning as specified under Articles 125(c) and 126 of the CBB Law.



MODULE	EN: Enforcement
CHAPTER	EN-3: Directions

EN-3.1 CBB Policy

- EN-3.1.1 The CBB may issue Directions to licensees or individuals under supervisory powers granted to it by the CBB Law. These powers are broad in nature, and effectively allow the CBB to issue whatever Directions it reasonably believes are required to achieve its statutory objectives.
- EN-3.1.2 The types of Directions that the CBB may issue in practice vary and will depend on the individual circumstances of a case. Generally, however, Directions require a licensee or individual to undertake specific actions in order to address or mitigate certain perceived risks. They may also include restrictions on a licensee's activities until those risks have been addressed – for instance, a ban on the acceptance of new customers.
- EN-3.1.3 The CBB is conscious of the powerful nature of a Direction and, in the case of a licensee, the fact that it subordinates the role of its Board and management on a specific issue. The CBB will carefully consider the need for a Direction, and whether alternative measures may not achieve the same end. Where feasible, the CBB will try to achieve the desired outcome through persuasion, rather than recourse to a Direction.
- EN-3.1.4 In considering whether to issue a Direction, the criteria taken into consideration by the CBB include the following:
- (a) The seriousness of the actual or potential contravention, in relation to the requirement(s) concerned and the risks posed to the licensee's customers, market participants and other stakeholders;
 - (b) In the case of an actual contravention, its duration and/or frequency of the contravention; the extent to which it reflects more widespread weaknesses in controls and/or management; and the extent to which it was attributable to deliberate or reckless behaviour; and
 - (c) The extent to which the CBB's supervisory objectives would be better served by issuance of a Direction as opposed to another type of regulatory action.



MODULE	EN: Enforcement
CHAPTER	EN-3: Directions

EN-3.2 Procedure for Issuing Directions

EN-3.2.1 Proposals to issue Directions are carefully considered against the criteria listed in Section EN-3.1. They require approval of an Executive Director or more senior official of the CBB, and include the statement “This is a formal Direction as defined in Chapter EN-3 of the CBB Rulebook”.

EN-3.2.2 The subject of the Direction will normally be given 30 days from the Direction’s date of issuance in which to make objections to the CBB concerning the actions required. This must be done in writing, and addressed to the issuer of the original notification. Should an objection be made, the CBB will make a final determination, within 30 days of the date of the objection, as specified in Articles 125(c) and 126 of the CBB Law.

EN-3.2.3 In extreme circumstances, where the CBB believes that immediate action is required to prevent real damage to Bahrain’s financial markets, its users or to customers of the licensee concerned, it may cancel or amend a license, as specified in Article 48(g) of the CBB Law, or place a licensee under administration according to Article 130(2) of the CBB Law, or suspend a license according to Article 131 of the pre-mentioned Law. These measures may be used in conjunction with directions.



MODULE	EN: Enforcement
CHAPTER	EN-4: Formal Requests for Information

EN-4.1 Procedure

- EN-4.1.1 As part of its on-going supervision, under Articles 111 and 123 of the CBB Law, the CBB may specifically request information or temporary reporting from a licensee or individual. Recipients of such requests are bound to respond to such requests under the terms of their license. Such requests are in effect a type of Direction.
- EN-4.1.2 Henceforward, to clearly identify such requests, they will always be made in writing, under signature of a Director or more senior official of the CBB; will include the statement “This is a formal request for information as defined in Chapter EN-4 of the CBB Rulebook”; and will state the deadline by which the information is to be communicated to the CBB.
- EN-4.1.3 Failure to respond to such formal requests within the deadline set will be viewed as a significant breach of regulatory requirements and will incur a formal warning or other enforcement measure, specified under Articles 163 and 170 of the CBB Law, as decided by the CBB depending on the circumstances of the case.
- EN-4.1.4 The deadline set in the request will vary depending on individual circumstances, but will in all cases be reasonable. A recipient may submit a case for an extension to the deadline, providing the request is made before the original deadline has passed. The CBB will respond before the original deadline has passed; if it fails to do so, then the requested extension will apply. Whilst waiting for a reply, the recipient must assume that the original deadline will apply.
- EN-4.1.5 The above procedures do not prevent individual CBB supervisors making oral requests for information as part of their day-to-day interaction with licensees. The CBB expects licensees to maintain their cooperative response to such requests; however, in the interests of clarity, the CBB will not view failures to respond to oral requests as a breach of regulatory requirements.



MODULE	EN: Enforcement
CHAPTER	EN-5: Adverse “Fit and Proper” Findings

EN-5.1 Requirements for Individuals

EN-5.1.1 Article 65 of the CBB Law, allows the CBB to determine the level of qualifications, experience, and training of a bank’s board, officers or employees.

EN-5.1.2 In addition, Chapter LR-1A specifies that all persons wishing to hold or holding the position of Director, Chief Executive/General Manager or Manager in a licensee must be assessed by the CBB as “fit and proper” to hold such a position. The Chapter specifies various factors that the CBB takes into account when reaching such a decision.

EN-5.1.3 Any Director, manager or official responsible for the direction or management of a licensee, is to be considered removed from office should he be convicted by a court for a crime affecting his honesty; is declared bankrupt by a court; or if a court rules that his legal capacity is totally or partially impaired.

EN-5.1.4 In interpreting the term “manager”, the CBB uses the definition given in Chapter LR-1A. The same definition applies when the term “manager” is used in other Modules, unless a different definition is explicitly provided for in the Module concerned.



MODULE	EN: Enforcement
CHAPTER	EN-5: Adverse “Fit and Proper” Findings

EN-5.2 CBB Policy

- EN-5.2.1 The CBB is conscious of the impact that assessing someone as not “fit and proper” may have on an individual. Such assessments are carefully reviewed in the light of all relevant facts. The criteria used in reaching a decision include the following:
- (a) The extent to which the factors set out in Chapter LR-1A have not been met;
 - (b) The extent to which the person has deliberately or recklessly breached requirements of the CBB Law or Volume 2 (Islamic Banks);
 - (c) The person’s past compliance record and conduct following any such contravention;
 - (d) The length of time since factors indicating a lack of fitness or propriety occurred; and
 - (f) The risk the person poses to licensees and their customers.
- EN-5.2.2 In assessing evidence, the CBB applies a lower threshold than is applied in a criminal court of law, reflecting the administrative nature of the sanction. The CBB may also take into account the cumulative effect of factors which, when considered individually, may not in themselves be sufficient to justify an adverse “fit and proper” finding.
- EN-5.2.3 The CBB may also take into account the particular function being undertaken in the licensee by the individual concerned, and the size and nature of the licensee itself, particularly when assessing the suitability of a person’s experience or qualifications. Thus, the fact that a person was deemed “fit and proper” for a particular position in a particular firm does not necessarily mean he would be suitable in a different position or in a different firm.



MODULE	EN: Enforcement
CHAPTER	EN-5: Adverse “Fit and Proper” Findings

EN-5.3 Procedure for Issuing an Adverse Finding

EN-5.3.1 All proposals for issuing an adverse “fit and proper” finding are subject to a thorough review by the CBB of all relevant facts, assessed against the criteria outlined in Section EN-5.2. In some instances, it may be appropriate for the CBB to request the licensee or person concerned to provide further information, in order to help reach a decision.

EN-5.3.2 All adverse findings have to be approved by an Executive Director of the CBB. A notice of intent is issued to the person concerned, and copied to the Board/senior management of the licensee as appropriate, setting out the circumstances and the basis for the CBB’s proposed adverse finding. The person has 30 calendar days from the date of the notice in which to make written representations, addressed to the Executive Director concerned, failing which a final notice is issued by the CBB.

EN-5.3.3 If representations are made, then the CBB has 30 calendar days from the date of the representation in which to consider any mitigating evidence submitted and make a final determination.



MODULE	EN: Enforcement
CHAPTER	EN-6: Financial Penalties

EN-6.1 CBB Policy

EN-6.1.1 Under Chapters 2 & 3 of Part 9 of the CBB Law, the CBB may impose financial penalties on licensees. Their use is generally limited to situations where major breaches of regulatory requirements have taken place and a licensee has failed to respond in an acceptable manner to the concerns expressed by the CBB. Financial penalties are thus normally preceded by the issuance of a written formal notice and/or Direction.

EN-6.1.2 The level of financial penalty applied is determined by the nature of the contravention and the amount of additional supervisory attention and resources taken up by a licensee's behaviour and by limits set in the CBB Law. The CBB intends that the impact of a penalty should derive more from its signaling effect than from the actual amount of money involved.

EN-6.1.3 As indicated in Paragraph EN-1.3.3, the CBB requires disclosure by licensees in their annual report of any financial penalties served on them, together with a factual description of the reasons given by the Central Bank for applying the penalty. In addition, the CBB may publicise the issuance of a financial penalty notice, where 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-6.1.4 Examples of the types of compliance failings that may lead to the serving of a financial penalty notice are outlined in Part 11 of the CBB Law and may include (but are not limited to):

- (a) Failures to address persistent delays and/or significant inaccuracies in regulatory reporting to the CBB;
- (b) Repeated failures to respond to formal requests for information from the CBB, within the deadlines set;
- (c) The submission of information to the CBB known to be false or misleading; and
- (d) Major failures in maintaining adequate systems and controls in accordance with the CBB's requirements, subjecting depositors and other customers to significant risk of financial loss.



MODULE	EN: Enforcement
CHAPTER	EN-6: Financial Penalties

EN-6.1 CBB Policy (continued)

- EN-6.1.5 In assessing whether to serve a financial written penalty notice, the CBB takes into account the following criteria:
- (a) The seriousness of the contravention, in relation to the requirement(s) concerned;
 - (b) The duration and/or frequency of the contravention, and the extent to which it reflects more widespread weaknesses in controls and/or management; the extent to which the contravention was deliberate or reckless;
 - (c) The licensee's past compliance record and conduct following the contravention; and
 - (d) The scope of any other action taken by the CBB or other regulators against the licensee, in response to the compliance failures in question.
- EN-6.1.6 The imposition of a financial penalty does not preclude the CBB from also using other enforcement measures to remedy the same violation (for instance, a Direction).
- EN-6.1.7 A written notice of a financial penalty must be issued before imposing any financial penalty. The written notice must contain the following information:
- (a) The violations committed by the licensee with respect to CBB Law; or the prudential Rulebook; or any Directions, warnings or formal requests for information; or violations of the terms and conditions of the license issued to the licensee;
 - (b) Evidence or proof to support the above;
 - (c) The level of financial penalty to be imposed;
 - (d) The grace period to be allowed to the licensee for challenging the intended penalty (which will not be less than 30 days).
- EN-6.1.8 The licensee may either pay the penalty or object within the above period. The CBB will consider any objection and make a formal resolution within 30 days of receiving the objection. Thereafter, the formal resolution and any accompanying penalties are final and must be paid within 30 days.



MODULE	EN: Enforcement
CHAPTER	EN 6: Financial Penalties

EN-6.2 Module FC (Financial Crime)

- EN-6.2.1 In addition to the circumstances set out in Section EN-6.1, a financial penalty of up to BD 20,000 may be applied by the CBB in cases where a licensee fails to comply with any of the requirements in Module FC.
- EN-6.2.2 The same criteria set out in Section EN-6.1 will be taken into account by the CBB when considering imposing a financial penalty. Financial penalties applied under this Section are also subject to the same disclosure requirements as described in Section EN-6.1.
- EN-6.2.3 A failure to comply with the requirements in Module FC that warrants a financial penalty would not trigger also a financial penalty under Section EN-6.1.
- EN-6.2.4 Any financial penalties applied by the CBB as regards the implementation of its requirements set out under Module FC, are without prejudice to the criminal sanctions available to the Bahraini courts under the Decree – Law No. 4 of 2001, with respect to the prevention and prohibition of the laundering of money. As with other financial penalties, the imposition of a financial penalty with regards to breaches of the requirements in Module FC does not prevent the CBB from also using other enforcement measures to remedy the same violation (for instance, a Direction).



MODULE	EN: Enforcement
CHAPTER	EN-6: Financial Penalties

EN-6.2A Financial Penalties for Date Sensitive Requirements

EN-6.2A.1 Modules LR, FC, BR and PD contain specific requirements where Islamic bank licensees must comply with, by a precise date. Where a specific due date is involved, the CBB's financial penalties are based on a per diem basis.

EN-6.2A.2 This Section applies to date sensitive requirements for:

- Reporting requirements included in Module BR;
- Public disclosure requirements included in Module PD;
- The report of the external auditor or a consultancy firm approved by the CBB required as per Paragraph FC-4.3.1 (d); and
- Annual licensing fees required as per Section LR-4.2.

EN-6.2A.3 **Financial penalties related to late filing or other date sensitive requirements are calculated as per the following per diem basis:**

- Where the Islamic bank licensee's total consolidated assets are less than or equal to BD 50 million, the financial penalty for late filing is BD 50 per day;
- Where the Islamic bank licensee's total consolidated assets are greater than BD 50 million but less than BD 250 million, the financial penalty for late filing is BD 100 per day;
- Where the Islamic bank licensee's total consolidated assets are greater than BD 250 million but less than or equal to BD 5 billion, the financial penalty is BD 200 per day;
- Where the Islamic bank licensee's total consolidated assets are greater than BD 5 billion, the financial penalty is BD 400 per day; and
- For new licensees who have yet to provide audited financial statements, the financial penalty is BD 50 per day.

EN-6.2A.4 **For overseas Islamic bank licensees, only those assets reported as part of the filing for their Bahraini operations, shall be considered in determining the per diem financial penalty.**

EN-6.2A.5 In accordance with Article 129 of the CBB Law, the maximum financial penalty levied for failing to comply with date sensitive requirements is BD20,000. The CBB may opt to limit the amount of the financial penalty and use other enforcement measures as outlined in Module EN (Enforcement), such as imposing restrictions on a conventional bank license limiting the scope of operations.

EN-6.2A.6 The various deadlines for submission of reports and annual fees referred to in Modules BR, FC, PD and LR are defined:

- In terms of a specified number of days or months following a given date, such as the last date of a calendar quarter;
- A specified number of days or months after the occurrence of a specific event; or
- A specific date.



MODULE	EN: Enforcement
CHAPTER	EN-6: Financial Penalties

EN-6.2A Financial Penalties for Date Sensitive Requirements (continued)

EN-6.2A.7 In imposing financial penalties for date sensitive requirements, the following criteria apply:

- (a) Where the due date falls on a weekend or a holiday as designated by the CBB, the first business day following the weekend or holiday will be considered as being the due date;
- (b) Where a due date is not complied with by the end of the day on which it is due, holidays and weekend days are included in the number of days the item is considered late;
- (c) For returns and other filings, the date received is the date recorded by the CBB's systems in case of returns filed electronically;
- (d) In the case of returns filed in hard copy, the CBB stamp is the date received;
- (e) All returns are to be sent to the respective Supervision Directorate and the annual fees to the Accounts Directorate, on or before the due date, to be considered filed on time;
- (f) A day ends at midnight in the case of returns that must be filed electronically, or at the close of CBB business day, in the case returns are filed in hard copy; and
- (g) An incomplete return, where completeness is determined in relation to the requirements of the relevant instructions and Module BR, is considered 'not filed' until the CBB receives all necessary elements of the return.

EN-6.2A.8 The CBB does not require any particular method of delivery for returns and filings that are filed in hard copy. The use of the Bahrain postal services, private courier services or other methods of delivery is entirely at the discretion and risk of the licensee. For the payment of annual fees, licensees must follow the requirements of Form ALF, included under Part B of Volume 2.

EN-6.2A.9 A decision to impose a financial penalty for date sensitive requirements is unrelated to whether the CBB issues a reminder; it is the licensee's responsibility to file and disclose on time as per the requirements of Volume 2 (Islamic Banks) Rulebook.



MODULE	EN: Enforcement
CHAPTER	EN-6: Financial Penalties

EN-6.3 Procedures for Financial Penalties

- EN-6.3.1 A written financial penalty notice will be addressed to the Chief Executive Officer or General Manager of the licensee concerned. This written notification will describe the contravention concerned, the CBB's evidence supporting a financial penalty, and the factors justifying the level of penalty proposed. Only an Executive Director or more senior member of the CBB's management may sign the notification.
- EN-6.3.2 The licensee has 30 days from the notification's date of issuance to submit any objections it wishes to make to the CBB, in writing and addressed to the issuer of the original notification. If the licensee decides not to submit objections, it has 30 calendar days from the notification's date of issuance in which to pay the penalty.
- EN-6.3.3 Should the licensee make representations challenging the proposed penalty, the CBB has 30 days from the issuance of those representations in which to re-examine the facts of the case and its conclusions. If the CBB confirms application of a penalty, payment is required within 30 calendar days of a final notice being issued.
- EN-6.3.4 Failure to pay a penalty within the required deadlines will be considered a breach of the CBB's regulatory requirements, and will also result in other measures being considered, as described elsewhere in this Module.



MODULE	EN:	Enforcement
CHAPTER	EN-6:	Financial Penalties

EN-6.4 Remediating a Compliance Failure

EN-6.4.1 Payment of a financial penalty does not by itself absolve a licensee from remediating the compliance failure concerned. The CBB will expect the licensee to address the contravention within a reasonable timescale, to be agreed on a case-by-case basis. Failure to do so will result in other measures being considered.



MODULE	EN: Enforcement
CHAPTER	EN-7: Investigations

EN-7.1 Legal Source

EN-7.1.1. Articles 121 to 123 of the CBB Law empower the CBB to order investigations of licensees, in order to help it assess a licensee's compliance with the provisions of the CBB Law. Such investigations may be carried out either by its own officials or by appointed experts. Articles 111 and 124 require licensees to make available to the CBB's inspectors and appointed experts their books and other records, and to provide all relevant information within the time limits deemed reasonable by the inspectors and/or appointed experts.

EN-7.1.2. Articles 163 and 170 of the CBB Law provide for criminal sanctions where false or misleading statements are made to the CBB, or an investigation by the CBB is otherwise obstructed (see Section EN-10.3).



MODULE	EN: Enforcement
CHAPTER	EN-7: Investigations

EN-7.2 CBB Policy

EN-7.2.1 The CBB uses its own inspectors to undertake on-site examinations of licensees as an integral part of its regular supervisory efforts. In addition, the CBB may commission special investigations of licensees in order to help it assess their compliance with CBB requirements, as contained in Article 121 of the CBB Law. Such investigations may be carried out either by the CBB's own officials, by duly qualified experts appointed for the purpose by the CBB (appointed experts); or a combination of the two.

EN-7.2.2 Failure by licensees to cooperate fully with the CBB's inspectors or appointed experts, or to respond to their examination reports within the time limits specified, will be treated as demonstrating a material lack of cooperation with the CBB which will result in other enforcement measures being considered, as described elsewhere in this Module. This Rule is supported by Article 124(a) of the CBB Law.

EN-7.2.3 The CBB may appoint an individual or a firm as an appointed expert. Examples of appointed experts are lawyers, audit firms and expert witnesses. The appointment of appointed experts is not necessarily indicative of a contravention of CBB requirements or suspicion of such a contravention. For instance, an appointed expert may be commissioned to provide an expert opinion on a technical matter.

EN-7.2.4 Appointed experts report in a form and within a scope defined by the CBB, and are solely responsible to the CBB for the work they undertake in relation to the investigation concerned. The report produced by the appointed experts is the property of the CBB (but is usually shared by the CBB with the firm concerned). The cost of the appointed experts' work must be borne by the licensee concerned.

EN-7.2.5 In selecting an appointed expert, the CBB will take into account the level of fees proposed and aim to limit these to the lowest level consistent with an adequate review of the matters at hand, given the qualifications, track record and independence of the persons concerned. Because the cost of such investigations are met by the licensee, the CBB makes only selective use of appointed experts, when essential to supplement CBB's other supervisory tools and resources.



MODULE	EN:	Enforcement
CHAPTER	EN-7:	Investigations

EN-7.2 CBB Policy (continued)

EN-7.2.6 The CBB may commission reports, which require appointed experts to review information from another company within the reporting bank's group even where that other company is not itself subject to any CBB requirements.

EN-7.2.7 Banks must provide all relevant information and assistance to appointed experts on demand. This rule is based on Article 123 of the CBB Law.

EN-7.2.8 Further details on the required report and other aspects related to the role of the appointed expert are contained in Section BR-6.5.

EN-7.2.11 [This Paragraph was moved to Section BR-6.5 in October 2011].



MODULE	EN:	Enforcement
CHAPTER	EN-7:	Investigations

EN-7.3 The Required Report

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	EN:	Enforcement
CHAPTER	EN-7:	Investigations

EN-7.4 Other Notifications to the CBB

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	EN: Enforcement
CHAPTER	EN-8: Administration

EN-8.1 Legal Source

EN-8.1.1 Article 136 of the CBB Law empowers (but does not oblige) the CBB to assume the administration of a licensee in certain circumstances. These circumstances are outlined in the above Article and may include the following:

- (a) The licensee has become insolvent;
- (b) Its solvency is in jeopardy;
- (c) Its continued activity is detrimental the financial services industry in the Kingdom; or
- (d) Its license has been cancelled.

EN-8.1.2 Article 139 of the CBB Law provides that where the CBB assumes the administration of a licensee, the licensee concerned may appeal within 10 days to the CBB and, subsequently, the courts, in order to challenge its administration by the CBB.

EN-8.1.3 Articles 135 to 143 of the CBB Law set down the operating parameters of an administration.



MODULE	EN: Enforcement
CHAPTER	EN-8: Administration

EN-8.2 CBB Policy

EN-8.2.1 The CBB views the administration of a licensee as a very powerful sanction, and will generally only pursue this option if less severe measures are unlikely to achieve its supervisory objectives.

EN-8.2.2 Although Article 136 of the CBB Law specifies the circumstances in which the CBB may pursue an administration, it does not oblige the CBB to administer a licensee. Faced with the circumstances described, the CBB may pursue other courses of action such as suspension of a license, if it considers that these are more likely to achieve the supervisory outcomes sought. Because an administration is likely to send a negative signal to the markets about the status of a licensee, other supervisory actions may in fact be preferable in terms of protecting the interests of those with a claim on the licensee.

EN-8.2.3 The criteria used by the CBB in deciding whether to seek an administration of a licensee include the following:

- (a) The extent to which the interests of the market, its users and those who have a claim on the licensee would be best served by the administration of the license, for instance because of the potential impact on asset values arising from an administration;
- (b) The extent to which other regulatory actions could reasonably be expected to achieve the CBB's desired supervisory objectives (such as restrictions on the licensee's operations, including limitations on new business and asset disposals);
- (c) The extent to which the liquidity or solvency of the licensee is in jeopardy; and
- (d) The extent to which the licensee has contravened the conditions of the CBB Law, including the extent to which the contraventions reflect more widespread or systemic weaknesses in controls and/or management.



MODULE	EN:	Enforcement
CHAPTER	EN-8:	Administration

EN-8.3 Procedure for Implementing an Administration

EN-8.3.1 All proposals for assuming the administration of a licensee are subject to a thorough review by the CBB of all relevant facts, assessed against the criteria outlined in Section EN-8.1.

EN-8.3.2 A formal notice of administration is issued to the licensee concerned and copies posted in every place of business of the licensee. As soon as practicable thereafter, the notice is also published in the Official Gazette and in one Arabic and one English newspapers in the Kingdom. The term “in administration” should be clearly marked in all the bank’s correspondence and on its website, next to the bank’s name.

EN-8.3.3 Article 136 of the CBB Law allows a licensee 10 days following the administration taking effect in which to appeal to the CBB in the form prepared by the CBB (Appendix xx). If the CBB refuses the appeal, the licensee has a further 30 days from the date of the refusal in which to lodge an appeal at the courts. So as to reduce the potential damage of an administration order being applied and then withdrawn on appeal, where feasible the CBB will give advance notice to a licensee’s Board of its intention to seek an administration, and allow the Board the right of appeal prior to an administration notice being formally served.



MODULE	EN: Enforcement
CHAPTER	EN-9: Cancellation or Amendment of License

EN-9.1 Legal Source

EN-9.1.1 Article 48 of the CBB Law empowers the CBB to cancel or amend a license under certain circumstances. These include cases where a licensee has:

- (a) Failed to satisfy its license conditions;
- (b) Violated the terms of the CBB Law, CBB Regulations or Volume 2 (Islamic Banks) Rulebook; or
- (c) Failed to start business within six months from the date of the license;
- (d) Ceased to carry out the licensed activities permitted; or
- (e) Not acted in the legitimate interest of its customers or creditors.

EN-9.1.2 Article 48(d) of the CBB Law also requires the CBB to give the licensee concerned reasonable time to object to any proposed cancellation or amendment of its license.



MODULE	EN: Enforcement
CHAPTER	EN 9: Cancellation or Amendment of License

EN-9.2 CBB Policy

EN-9.2.1 The CBB generally views canceling a license as appropriate only in extreme circumstances, when faced with the gravest of contraventions or when left with no other reasonable means of successfully addressing the regulatory failings in question. Cancellation or amendment of a license, however, may also be required in circumstances outside of an enforcement context, for instance because of a change in the business profile of a licensee.

EN-9.2.2 The criteria used by the CBB in assessing whether to seek cancellation or amendment of a license include:

- (a) The extent to which the interests of the market, its users and those who have a claim on the licensee would be best served by the cancellation or amendment of the license;
- (b) The extent to which other regulatory penalties could reasonably be expected to achieve the CBB's desired supervisory objectives;
- (c) The extent to which the licensee has contravened the conditions of its license and/or the CBB Law, including the seriousness, duration and/or frequency of the contravention(s) concerned, and the extent to which the contraventions reflect more widespread or systemic weaknesses in controls and/or management;
- (d) The extent to which the licensee has been involved in financial crime or other criminal conduct; and
- (e) The licensee's past compliance record and conduct following the contravention(s).

EN-9.2.3 When the CBB issues a notice of cancellation or amendment as an enforcement tool, it will only implement the actual change once it is satisfied that there are no longer any regulated activities for which it is necessary to keep the current authorisation in force. Until such time as these activities have been run off or moved to another licensee, the CBB will control these activities through other means (such as taking the licensee into administration or through issuing Directions).



MODULE	EN: Enforcement
CHAPTER	EN-9: Cancellation or Amendment of License

EN-9.3 Procedure for Cancellation or Amendment of License

- EN-9.3.1 All proposals for canceling or amending a license are subject to a thorough review by the CBB of all relevant facts, assessed against cases and the criteria outlined in Sections EN-9.1 and EN-9.2. After being assessed at the Executive Director level, proposals are submitted to H.E. the Governor for approval.
- EN-9.3.2 Once approved within the CBB, a formal notice of cancellation or amendment is issued to the licensee concerned. The notice of cancellation or amendment will describe the factual circumstances of the contraventions concerned, and the CBB's rationale for the proposed cancellation, as measured against the criteria outlined in Sections EN-9.1 and EN-9.2.
- EN-9.3.3 The licensee has 30 calendar days from the date of the notice in which to lodge an appeal. The appeal should be addressed to the Board of the CBB, and copied to H.E. the Governor of the CBB.
- EN-9.3.4 If an appeal is lodged, the Board of the CBB will make a final ruling within 60 calendar days of its date of issuance.
- EN-9.3.5 A licensee may appeal to a competent court within 60 calendar days of the above final ruling for a decision. The court's decision will then be final.



MODULE	EN: Enforcement
CHAPTER	EN-10: Criminal Sanctions

EN-10.1 Overview

- EN-10.1.1 The CBB Law provides for a number of criminal sanctions in cases where certain of its provisions are contravened. This Section provides a summary of those sanctions most relevant to licensees, their Directors and employees. What follows is not a complete list of all sanctions provided for in the CBB Law, nor is it a substitute for reading the Law and being fully aware of its provisions.
- EN-10.1.2 Licensees, their Directors and employees should also be aware of the criminal sanctions provided for under other relevant Bahraini laws, such as the Decree – Law No. 4 of 2001, with respect to the prevention and prohibition of the laundering of money.
- EN-10.1.3 In all cases to do with criminal sanctions, the CBB can only refer the matter to the Office of Public Prosecutor. The CBB has no authority to apply such sanctions directly without recourse to the courts.



MODULE	EN:	Enforcement
CHAPTER	EN-10:	Criminal Sanctions

EN-10.2 CBB Policy

EN-10.2.1 Because of their criminal status, and their provision for custodial sentences, the sanctions provided for under the CBB Law are viewed by the CBB as very powerful measures, to be pursued sparingly. In most situations, the CBB will seek to address regulatory failures through administrative sanctions, as outlined in preceding Chapters, rather than by pursuing the criminal sanctions outlined here.

EN-10.2.2 Where, however, the nature of the offence is such that there is strong evidence of a reckless or intentional breach of the CBB Law relevant to the following Articles, then the CBB will usually refer the matter to the Office of Public Prosecutor.



MODULE	EN: Enforcement
CHAPTER	EN-10: Criminal sanctions

EN-10.3 Articles of CBB Law

Article 161

EN-10.3.1A Article 161 of the CBB Law provides for a penalty of up to BD 1 million, without prejudice to any other penalty prescribed in any other law, in case of any person who breaches the provisions of Resolution No.(16) for the year 2012 issued pursuant to Article 42 of the CBB Law. The Court may also confiscate the proceeds resulting from breaching the Resolution.

Article 163

EN-10.3.1 Article 163 of the CBB Law provides for a term of imprisonment and/or a fine of up to BD 20,000, without prejudice to any other penalty prescribed in any other law, in case of conviction of a Director, manager, official, agent or representative of any licensee who:

- (a) Conceals any records, information or documents requested by the CBB (or any person appointed by the CBB to conduct an investigation or inspection);
- (b) Provides statements or information in bad faith which do not reflect the actual financial position of the licensee;
- (c) Conceals from an external auditor any records, information or documents necessary for auditing the accounts of the licensee; and
- (d) Provides in bad faith any misleading or inaccurate statements to an external auditor which do not reflect the actual financial position of the licensee.

Article 169

EN-10.3.2 Article 169 provides for a term of imprisonment, and/or a fine of up to BD 20,000 for any Director, manager, official or employee, who acts or permits an act in violation of Article 134 of the CBB Law where he knows (or should have known) that the licensee is insolvent.

Article 170

EN-10.3.3 Part 2 of Article 170 of the CBB Law provides for term of imprisonment and/or a fine not exceeding BD3,000 if any Director, manager, official or employee intentionally obstructs an investigation by the CBB or an investigator appointed by the CBB.

Article 171

EN-10.3.4 Article 171 of the CBB Law provides for a term of imprisonment and/or a fine not exceeding BD10,000, if any Director, manager, official or employee discloses in bad faith any confidential information relating to a customer of the concerned bank.



MODULE	EN:	Enforcement
CHAPTER	EN-10:	Criminal Sanctions

EN-10.4 [This Section was deleted on October 06]