



# **BUSINESS AND MARKET CONDUCT MODULE**



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MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-A:	<b>Introduction</b>

## BC-A.1 Purpose

BC-A.1.1 This Module contains requirements that have to be met by conventional bank licensees with regards to their dealings with customers. The Rules contained in this Module aim to ensure that conventional bank licensees deal with their clients in a fair and open manner, and address their customers' information needs.

BC-A.1.2 The Rules build upon several of the Principles of Business (see Module PB (Principles of Business)). Principle 1 (Integrity) requires conventional bank licensees to observe high standards of integrity and fair dealing, and to be honest and straightforward in their dealings with customers. Principle 3 (Due skill, care and diligence) requires conventional bank licensees to act with due skill, care and diligence when acting on behalf of their customers. Principle 7 (Client Interests) requires conventional bank licensees to pay due regard to the legitimate interests and information needs of their customers, and to communicate with them in a fair and transparent manner.

BC-A.1.4 This Module also provides support for certain aspects relating to business and market conduct in the Bahrain Commercial Companies Law of 2001 (as amended).

### *Legal Basis*

**BC-A.1.4** This Module contains the Central Bank of Bahrain's ('CBB') Directive (as amended from time to time) on business conduct by conventional bank licensees, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 (CBB Law). The directive in this Module is applicable to all conventional bank licensees.

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



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## BC-A.2 Scope of Application and Key Requirements

### BC-A.2.1

This Module applies to all conventional bank licensees unless indicated otherwise. The provisions of this Module do not apply to overseas branches and subsidiaries unless clearly stated otherwise.

BC-A.2.2 The remainder of this Module covers the following activities by conventional bank licensees:

- (a) Promotion of financial products and services (Chapter BC-1);
- (b) Code of Conduct for bank dealers and foreign exchange dealers (Chapter BC-2);
- (c) Client confidentiality (Chapter BC-3);
- (d) Customer account services and charges (Chapter BC-4);
- (e) Dishonoured cheques (Chapter BC-5);
- (f) ATMs and charges for their use (Chapter BC-6);
- (g) Margin Trading system (Chapter BC-7); and
- (h) Investment Business related activities (Chapter BC-8).



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### **BC-A.3 Module History**

BC-A.3.1 This Module was first issued in July 2004 by the BMA, as part of the conventional principles volume. 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.

BC-A.3.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 1 was updated in October 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

BC-A.3.3 The most recent changes to this Module are detailed in the table below:

#### *Summary of Changes*

Module Ref.	Change Date	Description of Changes
BC-4.1	01/01/05	New minimum balance and charges regulations.
BC-4.7	01/10/05	Streamlined notification requirements regarding new products.
BC-7	01/04/06	Margin trading rules and guidance.
BC-A.1	10/2007	New Rule BC-A.1.4 introduced, categorising this Module as a Directive.
BC-8	04/2008	New conduct of business requirements for Investment Business
BC-4.9	04/2008	New requirement to comply with Code of Best Practice on Consumer Credit and Charging.
BC-7.2	07/2009	Removal of numerical restrictions related to margin trading requirement.
BC-8.5.17	10/2010	Clarified the wording of Rule by replacing the term “legal” with “licensing”.
BC-A.1.4	01/2011	Clarified legal basis.
BC-1.1.13	01/2011	Corrected reference to Ministry of Industry and Commerce.
BC-8	01/2011	Changes made to reflect new definitions related to licensed exchange(s).
BC-1.1.11	04/2011	Clarified retention period of records for promotional schemes.
BC-3.1.1 and BC-4.3.1	04/2011	Minor amendments to clarify Rules.



<b>MODULE</b>	<b>BC: Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-A: Introduction</b>

### BC-A.3 Module History (continued)

#### *Effective Date and Evolution of the Module*

##### BC-A.3.4

Prior to the Rulebook, the CBB had issued various circulars representing regulations covering different aspects of Business and Market Conduct. The contents of this Module are effective from the date depicted in the original circulars listed below or from the dates indicated in Paragraph BC-A.3.3 above:

Circular Ref.	Date of Issue	Module Ref.	Circular Subject
EDBC/73/96	1 May 1996	BC-1.1	Explanatory note on the promotion of Banking and Financial Products.
BS.C7/91/442	10 Sep 1991	BC-1.1	Promotion of Banking Services.
85/25	2 May 1985	BC-2	Code of Conduct for Foreign Exchange Dealers and Brokers.
83/5	10 Apr 1983	BC-3	Disclosure of Information about Individual Accounts.
BS/11/2004	10 Aug 2004	BC-4.1	Min balances and savings accounts.
BS.C7/90/34	31 Jan 1990	BC-4.2	Dinar Certificates of Deposits.
EDBO/51/02	2 Apr 2002	BC-4.3	Charges to Customers.
BC/5/00	8 Mar 2000	BC-4.4	Accounts held for Clubs and Societies.
BSD(111)/94/157	24 Sep 1994	BC-4.5	Fees on Current Accounts.
BC/2/01	3 Mar 2001	BC-4.6	Brokerage Fees in Bahrain.
ODG/145/92	18 Aug 1992	BC-4.7	New products in the Retail Banking Field.
EDBO/46/03	8 Apr 2003	BC-4.8	Inheritance – Financial Procedures.
EDBO/27/96	25 Sep 1996	BC-5.1	Regulation for “Dishonoured Cheques”.
OG/399/94	28 Nov 1994	BC-5.2	Returned Cheques.
EDBO/49/01	6 May 2001	BC-5.3	Penalty Charges on Returned Cheques.
BC/8/98	24 May 1998	BC-6.1	Off-site ATMs.
EDBO/45/02	13 Mar 2002	BC-6.2	GCC ATM Network Charges.
BC/15/99	17 Jul 1999	BC-7.1	Margin Trading.





MODULE	BC: Business and Market Conduct
CHAPTER	BC-1: Promotion of Financial Products and Services

## BC-1.1 Promotion of Financial Products and Services Offered in/from Bahrain by Means of Incentives etc.

### *Introduction*

BC-1.1.1 The purpose of the content of this Section is to set out requirements pertaining to the promotion of banking/financial products offered in/from Bahrain by conventional bank licensees by means of incentives etc. (herein referred to as 'promotional schemes').

**BC-1.1.2** The CBB has no objection to the use of promotional schemes in general and, unless it otherwise specifically directs in any particular case, the CBB does not expect to be actively consulted/have its approval sought about the idea and/or substance of any promotional schemes. The CBB should, however, be sent copies of documentation relating to promotional schemes at least ten days prior to their launch for information purposes.

BC-1.1.3 The CBB will monitor promotional schemes and, if thought appropriate in the interests of a bank or other financial institution (together herein referred to as 'institutions') and its customers in particular and/or the financial sector in general, may issue specific guidance in certain cases. Institutions should feel free to consult the CBB at any time regarding any matters referred to in the explanatory note set out in this Section.

BC-1.1.4 Banks undertaking investment business activities should refer to Chapter BC-8 for additional requirements.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-1:	Promotion of Financial Products and Services

## BC-1.1 Promotion of Financial Products and Services Offered in/from Bahrain by Means of Incentives etc. (continued)

### *General Requirements*

#### BC-1.1.5

Retail bank licensees should take care to ensure that promotional schemes do not involve a breach of Bahrain law or any other relevant applicable law **and regulation**. In addition, promotional schemes should not in any way be detrimental to the public good or public morals.

#### BC-1.1.6

While there is to be no formal restriction on the types of incentive which may be used by institutions, care should be taken to ensure that promotional schemes do not negatively affect the integrity, reputation, good image and standing of Bahrain and/or its financial sector, and do not detrimentally affect Bahrain's economy.

#### BC-1.1.7

Bearing in mind the reputation of, and the requirement to develop, the financial sector in Bahrain, as well as the need to act at all times in the best interests of the customer, banks need to take adequate care to ensure that promotional schemes do not unreasonably divert the attention of the public from other important considerations in choosing a bank or a banking/financial product.

#### BC-1.1.8

All documentation concerning promotional schemes should be in Arabic and English and, if relevant, any other language necessary for customers to fully understand and appreciate their terms and conditions. Such terms and conditions, including any related advertising, need to be clear, concise, truthful, unambiguous and complete so as to enable customers to make a fully informed decision.



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CHAPTER	BC-1:	Promotion of Financial Products and Services

**BC-1.1 Promotion of Financial Products and Services Offered in/from Bahrain by Means of Incentives etc. (continued)**

BC-1.1.9

Customers to whom promotional schemes are directed should enjoy equal opportunity in terms of access to, and treatment within, such schemes.

BC-1.1.10

No costs (including funding costs), charges or levies associated with promotional schemes should be concealed from prospective customers.

BC-1.1.11

All material related to promotional schemes, particularly where raffles/lotteries etc. are concerned, must be maintained for a minimum period of 5 years (see Paragraph OM-7.3.4).

BC-1.1.12

Any raffles/lotteries etc. held as part of promotional schemes should be independently monitored (e.g. by the institution's external auditor) and adequate systems put in place to ensure fair play and impartiality.

BC-1.1.13

An appropriate system must also exist for informing participants of the results of a raffle/lottery without delay. Institutions must note that raffles/lotteries etc. may be subject to rules and requirements (including prior authorisation/approval) laid down by the Ministry of Industry and Commerce.

BC-1.1.14

Banks may use small 'gifts' as an inducement to members of the public to use banks' services, provided such gifts are offered on a general basis and have a low monetary value.

BC-1.1.15

Due note should be taken of the overriding provisions of Bahrain (and any other relevant) law in relation to institutions' duties to customers to the extent (if any) that promotional schemes might impact on such duties.



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## BC-.1 Introduction

### BC-2.1.1

The Code of Conduct, which is prepared in cooperation with the Bankers' Society of Bahrain and foreign exchange brokers, provides rules in respect of certain kinds of practice which experience has shown may cause difficulty and may jeopardise the good standing of the Bahrain market. Management of banks and money brokers are responsible for ensuring that their institutions are in full compliance with the Code.

### BC-2.1.2

Every broker and dealer shall at all times comply with the criteria in respect to market practice, integrity and conduct. Failure to comply with such criteria will be regarded as a serious offence by the CBB, which reserves the right to investigate any complaints brought to its attention. All participants should adhere to the spirit as well as to the letter of the Code.



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## BC-2.2 Market Terminology and Definitions

BC-2.2.1 The use of generally accepted precise terminology should reduce misunderstandings and frustration, and to this end Appendix BC-5 sets out, without claiming to be exhaustive, accepted market terminology and definitions.

### BC-2.2.2

For the purpose of this Chapter, the following definitions apply:

- (a) 'Broker' means a money and foreign exchange broker who is authorised by the CBB to operate in Bahrain;
- (b) 'Principal' means a party undertaking a transaction through a broker; and
- (c) 'Bank' means any institution holding a banking license.



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### BC-2.3 Confidentiality and Market Practice

#### BC-2.3.1

Confidentiality is vital for the preservation of a reputable and efficient market. Accordingly, the exchange of confidential information in respect of third parties is forbidden.

#### BC-2.3.2

The rules which follow are not intended to define exhaustively the obligations of dealers and brokers but set down specific ways in which confidentiality should be safeguarded and operations should be conducted:

- (a) Use of phrases and terms likely to identify the name of the principal should be avoided at all times;
- (b) In foreign exchange transactions brokers should not disclose the name of the principal until the deal is being closed.

A broker asking for a specific support price should be prepared to qualify the principal in terms of geographical location, by country or by region when the broker genuinely believes it will enable business to be concluded satisfactorily to the benefit of both broker and principal;



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### BC-2.3 Confidentiality and Market Practice (continued)

- (c) In deposit transactions, brokers should not disclose the name of the borrower until the broker is satisfied that the potential lender seriously intends to do business. Once a lender has asked for the identity of the borrower ('Who pays?'), the lender is committed to do business at the rate quoted with an acceptable name, until the lending bank takes the broker 'off' or puts himself under reference. In the event of the first disclosed name being unacceptable to the lender, the lender will be prepared to check other acceptable names provided that such names are shown to the lender by the broker within a reasonable amount of time, which should be stipulated if necessary;
- (d) In the deposit market, banks should whenever possible give brokers prior indication of those categories of principals and of any centres and areas with which they would be unwilling to do business, in order that the smooth operation of markets be facilitated and frustration be minimized. Lenders should indicate the amounts they are prepared to place with particular categories of borrower. Brokers should classify bids with an indication of the type and quality of names they are in a position to pass;
- (e) Practices whereby banks reject a succession of names in order to assess the market and brokers offer banks deals which have no chance of being concluded, merely in order to establish their interest, are totally unacceptable;
- (f) A principal is urged whenever possible to specify to a broker the rate, the amount, the currency, and the period of his requirements. The principal shall be willing to deal in a marketable amount with acceptable names and shall remain bound so to deal at the quoted rate unless either:
  - (i) The broker is informed otherwise at the time of acceptance, or
  - (ii) A time limit was placed (for example, 'Firm for one minute only').



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### BC-2.3 Confidentiality and Market Practice (continued)

A broker who quotes a firm rate without qualification shall be prepared to deal at the rate, in a marketable amount. A broker, if quoting only the basis of one or two names, shall qualify his quotation, e.g., 'one small offer or – only two names paying'. The broker should indicate whether prices are firm or simply for guidance and, if requested by the principal, should be willing to indicate the amount involved. Further he should confirm with banks at reasonable intervals that their interest is still firm.

It is the responsibility of the principal to ensure the broker is made aware of any circumstances which materially affect the validity of the order placed with the broker.

- (g) A principal, by selecting to 'put a broker on', is deemed to have a serious intention of completing business, and should allow the broker sufficient time to quote the principal's interest to a potential counterparty with a view to doing business. In quantifying a 'sufficient time' factors such as the currency, market conditions and communication systems employed, should be taken into account;
- (h) A broker is held responsible for advising a principal on every occasion that his deposit rates are being checked by a potential counterparty. This action should help minimise the occasional difficulties that arise when a principal 'takes a broker off' simultaneously to having his prices checked. Whenever possible and subject to market conditions, a bank in the deposit market should, before he 'takes a broker off' either a single order or several orders, check whether the broker is already committed to deal on his behalf;
- (i) 'Under reference' orders placed by banks with brokers without having first being placed as 'firm', are to be discouraged. Firm orders which are later qualified by a request to 'put me under reference' indicate a principal's weakening desire to conclude business with that broker. 'Under reference' orders should not be left with a broker for more than a few minutes. A principal must ensure that the broker has the opportunity frequently to check the validity of an 'under reference' order;





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### BC-2.3 Confidentiality and Market Practice (continued)

- (j) No person may visit the dealing room of any broker or any bank except with the consent of a Manager or Director of that institution. A broker shall not in any circumstances permit any visitors from a bank to deal for his bank in the dealing room of that broker;
- (k) Management of banks should issue clear directions to staff on the monitoring, control and recording of 'after hours' dealing from premises other than bank dealing rooms. All deals of this kind must be properly authorised and confirmed;
- (l) A bank dealer shall not apply unfair pressure upon a broker to pass information which it would be improper for the broker to pass. Unfair pressure would for example include a statement made in any form that a failure to co-operate would lead to reduction in the business given by the principal or by other principals to the broker;
- (m) A principal should not place an order with a broker solely with the intention of finding out the name of a counterparty, who can be contacted directly with a view to concluding further deals;
- (n) Management of banks and brokers should lay down clear directions to staff on the extent to which dealing in foreign exchange or deposits for personal accounts is permitted. Any such dealing must be strictly controlled;
- (o) Care should be taken over the positioning of 2-way loudspeakers in dealing rooms; **and**
- (p) Brokers and dealers should inform each other if conversations are being recorded. The use of such equipment is encouraged as a sensible means of enabling any subsequent disputes and differences to be settled.



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## **BC-2.4 Passing of Details**

### **BC-2.4.1**

The passing and recording of details form an essential part of the transaction and the possibility of errors and misunderstanding is increased by delay and by the passing of details in batches. Brokers should pass details verbally, and principals should be prepared to receive them, normally within a few minutes after deals have been concluded.

### **BC-2.4.2**

When arranging and passing details on forward contracts in foreign exchange, banks and brokers must ensure that the rate applied to the spot end of the transaction bears a close relationship to the spot rate at the time the deal was concluded.



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## BC-2.5 Confirmations

### BC-2.5.1

Written confirmation by a broker is the final check on the details of the transaction. The handling of confirmations must take account of the desire of brokers to have a realistic time-limit placed on their liability for differences. There is an obligation on recipients to check such confirmations. Initial confirmations should be sent out by telex without delay, and at the latest by close of business on the same working day. They should be followed up by written confirmation, normally hand-delivered and receipted before close of business on the following working day.

### BC-2.5.2

Banks must check all confirmations carefully upon receipt so that discrepancies shall be quickly revealed and differences minimised. Principals shall also make enquiries of brokers about particular confirmations which have not been received within an appropriate time (as above) or about any changes in contract terms.

### BC-2.5.3

In the case of deals where a bank pays against telex confirmation, the broker remains liable for differences until receipt of written confirmation is provided by the bank.



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## **BC-2.6 Differences and Disputes**

BC-2.6.1 The majority of differences payable by brokers arise from errors occurring in payment or repayment instructions. They also arise from a broker, having in good faith indicated a firm rate, being unable to substantiate his quotation.

**BC-2.6.2** Any differences deemed payable by a broker to a bank (or by a bank to a broker) should be settled as soon as possible. The parties should provide each other with documents, setting out the exact details of and circumstances surrounding the deal.

**BC-2.6.3** It is acknowledged that differences are sometimes paid by 'points'. The management of broking firms should always ensure that this practice is strictly controlled and monitored.

**BC-2.6.4** All differences settled by direct payment should be advised in writing by the broker to the Director of Reserve Management, CBB, (copied to the Bank) indicating the amount paid and the other party's name. The CBB reserves the right to ask for further information at its discretion.



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## BC-2.7 Conduct

**BC-2.7.1** The CBB will regard any breaches of the rules stated below regarding gifts, favours, betting and entertainment unacceptable.

### *Gifts and Favours*

**BC-2.7.2** No broker, including management, employees and other persons acting on their behalf, shall offer or give inducements to dealing room personnel of a bank. No gifts or favours whatsoever shall be so given unless the broker is satisfied that the person responsible for dealing operations in the bank concerned has been informed of the nature of the gift or favour.

**BC-2.7.3** Employees of banks shall not solicit inducements from brokers, nor shall they receive unsolicited gifts or favours from brokers without informing the person responsible for dealing operations in the bank concerned of the nature of such gifts or favours.

### *Bets*

**BC-2.7.4** The making or arranging of bets between brokers and bank dealers is totally unacceptable.

### *Entertaining*

**BC-2.7.5** It shall be the responsibility of management in both banks and brokers to ensure that entertainment offered in the course of business does not exceed reasonable limits and does not infringe standards of propriety and decency.



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## BC-2.8 Responsibility

### BC-2.8.1

Brokers shall be responsible for ensuring that:

- (a) Their principals understand fully the limitations of the brokers' responsibilities for business and market conducted;
- (b) All their principals understand that they are required to conform, where appropriate, to the Code of Conduct;
- (c) Their staff carrying out transactions on behalf of principals are adequately trained both in the practices of the market-place and in the firm's responsibilities to principals; and
- (d) The CBB is notified of any changes in broking staff, in accordance with CBB requirements.

### BC-2.8.2

Bankers shall be responsible for ensuring that:

- (a) Their dealing staff are adequately trained and supervised in the practices of the market (the requirement of this Code of Conduct should be fully understood by all staff involved in foreign exchange and currency deposit operations);
- (b) The CBB is notified of any changes in dealing staff, in accordance with CBB requirements;
- (c) Their staff understand that the ultimate responsibility for assessing the creditworthiness of a borrower or lender lies with the bank and not the broker;
- (d) Brokerage is normally payable at the end of the month in which the money passes, or otherwise by special arrangement; and
- (e) There is no pressure on brokers to reduce charges below the approved minimum rates.



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## BC-2.9 Market Regulations – Foreign Exchange

### *Currencies*

BC-2.9.1 A broker will, in response to an enquiry from any bank, make known the currencies which it elects to quote and to make a service in.

**BC-2.9.2** Each broker shall provide, on request by a bank taking a service, general market information on all currencies handled (whether for the time being active or not) by that broker.

### *Brokerage*

**BC-2.9.3** Brokers shall comply with the minimum scales of brokerage charges (see Section BC-4.6) agreed in consultation with the Bankers' Society Council from time to time, or laid down by the CBB.

In cases where there is no established minimum scale of brokerage charges, no deals shall be transacted until a rate has been agreed. Rates of brokerage in these cases should be agreed in advance, and only by Directors or senior managers on each side, and in no event by the dealers themselves.

**BC-2.9.4** Put-through deals may be net of brokerage.

**BC-2.9.5** Brokerage should be expressed in US dollars.



MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-2:	<b>Code of Conduct for Bank Dealers and Foreign Exchange and Money Brokers in the Foreign Currency and Deposit Markets</b>

## BC-2.10 Market Regulations – Currency Deposits

### *Brokerage*

**BC-2.10.1** Brokers shall comply with the minimum scales of brokerage charges (see Section BC-4.6) agreed in consultation with the Bankers' Society Council from time to time, or laid down by the CBB. In cases where there is no established minimum scale of brokerage charges, no deals shall be transacted until a rate has been agreed. Rates of brokerage in these cases should be agreed in advance, and only by Directors or senior managers on each side, and in no event by the dealers themselves.

**BC-2.10.2** Calculation of brokerage on all currency deposits shall be worked out on a 360-day year, or a 365-day year, according to normally accepted market practice. For example, Sterling and Kuwaiti Dinars are on a 365-day year basis, and US dollars and Saudi Riyals are on a 360-day year basis.

Brokers' confirmations and statements should express brokerage in US dollars.

**BC-2.10.3** In a forward-forward deposit (e.g. one month against six months) the brokerage to be charged shall be on the actual intervening period (i.e. in the above example - five months).

**BC-2.10.4** Put-through deals may be net of brokerage.





<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
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## BC-2.11 Market Discipline

### BC-2.11.1

As part of its responsibility for supervising the conduct of brokers and dealers in the foreign exchange and currency markets, the CBB may, at its discretion:

- (a) Investigate any complains concerning the conduct of brokers and dealers;
- (b) Investigate possible breaches of this Code by brokers and banks; and/or
- (c) Take such further action as it considers appropriate, in the light of all the relevant facts.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-2:	Code of Conduct for Bank Dealers and Foreign Exchange and Money Brokers in the Foreign Currency and Deposit Markets

## BC-2.12 Adjustment of Value Dates in Case of Unexpected Banking Closing Dates

### BC-2.12.1

Spot transactions and outright:

- (a) *Original agreed upon value date for identical currency sold and purchased: extension of value date to next possible value date for both currencies; and*
- (b) *Original agreed upon value date for non-identical currency sold and purchased (for instance, Friday for US Dollars and Saturday for Gulf Currencies): as unexpected banking closing days for non-Middle Eastern currencies are unlikely - value of non-Gulf currencies unchanged and value of Gulf currency on the next working day, adjusting spot or outright rate taking into account interest rate difference between the two currencies.*

For pure outright it would be advisable to adopt same system as for swaps; however, implied swap difference is not visible or identical for both parties.

- It can be assumed that, if the above rule would cause substantial losses for one party, dealers will re-negotiate a new rate, on a case-by case basis; if no agreement can be reached, the CBB - as final arbitrator - will fix the interest rates, prevailing at that time, which will be used to calculate the points difference, with which the outright rate will be adjusted.

It is possible that payment instructions for counter-currency are already sent out and cannot be cancelled; in that case the paying party should be entitled to the proceeds of the unexpected use of funds by the receiving party.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-2:	Code of Conduct for Bank Dealers and Foreign Exchange and Money Brokers in the Foreign Currency and Deposit Markets

## BC-2.12 Adjustment of Value Dates in Case of Unexpected Banking Closing Dates (continued)

### BC-2.12.2

#### Deposits:

- (a) *Maturing on unexpected closing day(s):* Extending deposit to next possible value date; interest to be calculated in the extended period at original agreed upon interest rate;
- (b) *Starting on unexpected closing day(s) and maturing after unexpected closing day(s):* Starting date will be extended to next possible value date without altering maturing date; interest to be calculated on the shortened period at the originally agreed upon interest rate; **and**
- (c) *Starting on unexpected closing day(s) and maturing before or on next possible value date: Cancellation of deal:*
  1. If payment instructions are already sent out by lender and can only be executed on next possible value date, and cannot be cancelled, borrower ensures repayment will be done on the same next possible value date. If in that case borrower cannot repay because of deadline of receiving instructions by correspondent on same next possible value day, parties negotiate a new deal starting at value date of payment by lender and maturing according to new deal.
  2. If payment instructions are already sent out by lender for capital and by borrower for capital and interest both payments will be executed at same next possible value date, lender should refund to borrower unearned interest.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-2:	Code of Conduct for Bank Dealers and Foreign Exchange and Money Brokers in the Foreign Currency and Deposit Markets

## BC-2.12 Adjustment of Value Dates in Case of Unexpected Banking Closing Dates (continued)

### BC-2.12.3

#### Swaps:

- (a) *Maturing on unexpected closing day(s)*: Extending swap to next possible value date for both currencies, adjusting swap difference according to formula - swap difference divided by original number of days and multiplied by new number of days;
- (b) *Starting on unexpected closing day(s) and maturing after unexpected closing day(s)*: Starting date for both currencies would be extended to next possible value date for both currencies without altering maturing date, adjusting swap difference according to Formula under Paragraph BC-2.12.3(a); and
- (c) *Starting on unexpected closing day(s) and maturing before or on next possible value date*: Deals are cancelled.

If starting or maturing date of original swap under Paragraph BC-2.12.1 or Paragraph BC-2.12.2 is substantially different, per currency swap difference has to be recalculated in mutual agreement between the dealers;

- It is possible that payment instructions for counter currency are already sent out and cannot be cancelled - in that case paying party should be entitled to the proceeds of the unexpected use of funds by the receiving party;
- It is possible that payment instructions for Gulf currencies are already sent out and cannot be cancelled - in these cases rules according to Paragraph BC-2.12.2(c)-1 and Paragraph BC-2.12.2(c)-2 should be applied.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-3:	Client Confidentiality

### BC-3.1 Disclosure of Information about Individual Accounts

#### BC-3.1.1

In accordance with Article 117 of the CBB Law, banks must not publish or release information to third parties concerning the accounts or activities of their individual customers, unless:

- (a) Such information is requested by the CBB or by an order from the Courts;
- (b) The release of such information is approved by the customer concerned; or
- (c) It is in compliance with the provision of the law or any international agreements to which the Kingdom is a signatory.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

#### BC-4.1 Minimum Balance and Charges on Savings Accounts

**BC-4.1.1** Banks may impose no more than a monthly charge of BD 1 when the monthly weighted average balance for savings accounts for individuals falls below BD 20 (or equivalent in other currencies).

**BC-4.1.2** Orphans, widows, pensioners, individuals receiving social subsidies from the Ministry of Labour & Social Affairs, students and Bahraini nationals with a monthly salary below BD 250 should be exempted from maintaining the above minimum balance requirement for savings accounts. Banks should establish criteria for determining the eligibility of a person for exemption from the above charges and should notify their concerned customers accordingly.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.2 Dinar Certificates of Deposits – Rules

BC-4.2.1 The purpose of the contents of this Section is to set out rules governing the issue of Dinar Certificates of Deposit by retail bank licensees.

BC-4.2.2 For the purpose of this Section, ‘Dinar Certificates of Deposit’ are financial instruments payable in Bahrain Dinars. They must be negotiable – in accordance with the Law of Commerce (No. 7) of 1987 – and must satisfy the conditions set out in this Section.

### *Issue*

BC-4.2.3 Dinar Certificates of Deposit may be issued only by retail bank licensees and must be payable at their offices in Bahrain.

BC-4.2.4 Retail bank licensees may issue Certificates of Deposit to both resident and non-resident customers and to other banks inside and outside Bahrain.

BC-4.2.5 Retail bank licensees may not issue Certificates of Deposit until they receive the necessary funds.

### *Denominations*

BC-4.2.6 Certificates of Deposit may be issued for any amount subject only to a minimum denomination of BD 30,000.

### *Maturities*

BC-4.2.7 Certificates of Deposit may be issued for any maturity between 183 days (6 months) and 5 years.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.2 Dinar Certificates of Deposits – Rules (continued)

### *Interest Rates*

BC-4.2.8 The interest rates on Certificates of Deposit may be freely agreed between banks and their counterparties at the time of issue.

BC-4.2.9 Interest may be payable by agreement at a fixed or floating rate. In the case of a floating interest rate, the formula for revising the rate must be specified at the time of issue.

BC-4.2.10 Interest may be payable at maturity or on earlier dates specified at the time of issue.

BC-4.2.11 As an alternative to paying interest, Certificates of Deposit may be issued (like Treasury bills) at a discount to their face value (the repayment amount).

BC-4.2.12 Interest and discounted values should be calculated on the basis of a 360 day year.

### *Negotiability*

BC-4.2.13 In view of their negotiability, Certificates of Deposit may be freely traded between banks, and between banks and customers. Issuing banks are permitted to re-purchase their own Certificates.

### *Safe Custody*

BC-4.2.14 Although it is not obligatory, holders of Certificates of Deposit are advised to keep these certificates with a bank for safe custody and to handle them with care at all times.

### *Reserve Ratio*

BC-4.2.15 Outstanding Certificates of Deposit are subject to reserve requirements in accordance with the provisions set out under Section BR-4.2.





MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.2 Dinar Certificates of Deposits – Rules (continued)

### *Other Conditions*

BC-4.2.16

Banks must not describe deposit receipts, confirmations and other non-negotiable documents relating to ordinary deposits as 'Certificates of Deposit' and must not include such liabilities among Certificates of Deposit in their monthly statistical reports (also see Module BR).

BC-4.2.17

In their statistical reports (also see Module BR), banks should always classify their outstanding Certificates of Deposit according to the type of customer (e.g. resident etc.) to whom they were first issued.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

### BC-4.3 Disclosure of Charges

BC-4.3.1 In order to improve customer awareness and enhance transparency of bank charging structures, retail bank licensees should display **in Arabic and in English**, by notice in their banking halls (both head offices and branches), a list of **all** current charges.

BC-4.3.2 Banks should also ensure that each customer is in receipt of their current list of charges. The list should specify standard charges and commissions that will be applied by the bank to individual services and transactions and to specific areas of business.

BC-4.3.3 The requirements in this Section are in addition to the requirements set out under Section CM-8.2 that require all retail banks to display, by a conspicuous notice, their current effective rate of interest.



MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-4:	<b>Customer Account Services and Charges</b>

## **BC-4.4 Accounts Held for Clubs and Societies in Bahrain**

BC-4.4.1 All clubs and societies registered with the General Organisation for Youth and Sports (GOYS), are permitted under GOYS rules to only have one account with retail bank licensees in Bahrain.

**BC-4.4.2** The retail bank licensee is requested to notify GOYS when any club or society registered with GOYS requests the opening of an account with the bank. The purpose of the notification is to obtain clarification whether or not the account in question can be opened in accordance with the rules of GOYS.

**BC-4.4.3** For accounts already held with retail bank licensees for clubs and societies registered with GOYS (i.e. before the application of the Rule in this Section), the bank is requested to provide details of such accounts to GOYS (by reference to account name, relevant society, date opened and type of account) as soon as possible. If appropriate, GOYS will contact the relevant club or society in writing (with a copy to the bank) with instructions (e.g. to close the account) regarding such account.



MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-4:	<b>Customer Account Services and Charges</b>

## BC-4.5 Current Accounts

**BC-4.5.1** Retail bank licensees levying fees on their low-balance customer current accounts are required by the CBB to apply such fees to average balances when these fall below a prescribed level during a specified period.

BC-4.5.2 In order to prevent incidences of returned cheques due to maintenance of low-balance current accounts, the banks may convert some low-balance and/or inactive current accounts to savings accounts.



<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-4:</b>	<b>Customer Account Services and Charges</b>

## **BC-4.6 Brokerage Fees**

**BC-4.6.1** The purpose of the contents of this Section is to set out the scale of brokerage fees effective for all banks in Bahrain

BC-4.6.2 The scale of fees is the result of discussion and consultation between The Bankers' Society and the Bahrain Money Brokers.

BC-4.6.3 For the list of brokerage fees, see Appendix BC-6.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.7 Notification to the CBB on Introduction of New or Expanded Customer Products and Facilities

**BC-4.7.1** The content of this Section is applicable only to retail bank licensees by the CBB.

**BC-4.7.2** All institutions referred to under Paragraph BC-4.7.1 are required to notify the CBB before the introduction of any new or expanded customer products and facilities. The CBB will respond to the concerned bank within one week of receipt of the notification if it has any observations on the new product.

**BC-4.7.3** Institutions should also advise the CBB, on a six-monthly basis, on the status of new or expanded products and facilities. The advice should cover the following aspects:

- (a) Response to;
- (b) Success of; and
- (c) Difficulties in,

the introduction of new or expanded products and facilities. The institution should also advise the CBB on any variances which are introduced to the terms and conditions applying to these products and facilities.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.8 Procedures for Inheritance of Financial Assets

### BC-4.8.1

The content of this Section is applicable to all retail bank licensed by the CBB in the Kingdom of Bahrain.

### BC-4.8.2

The CBB requires all retail bank licensees to follow the under-mentioned procedures regarding the distribution of the financial assets of a deceased customer.

- (a) Legal ownership of financial assets should only pass after sight of, and in accordance with, the relevant documentation issued by the Ministry of Justice (known as the “statutory portion”);
- (b) Distribution of assets should be made to the order of an individual named in, and in accordance with, a mandate, duly certified by the Ministry of Justice, that reflects the permission of all inheritors that the named individual may act on their collective behalf; and
- (c) Where minors are inheritors, the Ministry of Justice documentation must specifically refer to their inheritance and the instruction followed absolutely.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-4:	Customer Account Services and Charges

## BC-4.9 Compliance with the Code of Best Practice on Consumer Credit and Charging

### BC-4.9.1

Conventional bank licensees must comply with the Code of Best Practice on Consumer Credit and Charging as attached in Appendix CM-2 and the Investment Business Code of Practice requirements in this Chapter throughout the lifetime of their relationship with a customer.

### BC-4.9.2

Conventional bank licensees must take responsibility for compliance with the above requirements by all persons carrying out regulated banking services on their behalf. Conventional bank licensees must put in place appropriate measures across all their business operations and distribution channels to ensure compliance with the requirements of the Code of Best Practice on Consumer Credit and Charging where relevant.





MODULE	BC:	Business and Market Conduct
CHAPTER	BC-5:	Dishonoured Cheques

## BC-5.1 Penalty System for Dishonoured Cheques

### BC-5.1.1

The purpose of the contents of this Section is to set out Rule relating to the system of penalising any person, whether natural or corporate in form, (referred to as a 'customer' in this Chapter) whose cheque is:

- (a) Presented for payment, but is returned due to insufficient funds being available on his current account, where,
- (b) In the opinion of the bank on whom the cheque is drawn, such cheque has been issued by the customer in bad faith.

Cheques falling within this system are referred to as 'dishonoured cheques'. Due regard must be given by retail banks licensees to the general provisions of Bahrain Law regarding joint accounts, partnership accounts and accounts in the name of corporate entities, as well as to the customer mandate in each case, to determine how such accounts may be dealt with for purposes of the Rule in this Chapter.

#### *Procedures to be Followed*

### BC-5.1.2

On each occasion that a retail bank licensee becomes aware of a dishonoured cheque of one of its customers, that bank will send a written warning to the relevant customer informing him/her of the existence of the dishonoured cheque, requesting him/her to immediately make good the insufficiency in his current account in order to clear the cheque. This written warning will also inform the customer of the provisions of this system with regard to dishonoured cheques and abusers of cheques.

### BC-5.1.3

On the first working day of each calendar month, each retail bank licensee must provide to the CBB a list of the names, supported with I.D. numbers (CPR or CR numbers (as applicable) for Bahrain residents, Passport or CR-equivalent numbers (as applicable) for non-Bahrain residents) of those customers to whom one (or more) written warning(s) has been sent in accordance with Paragraph BC-5.1.2 above during the immediately preceding calendar month. This list should specify the number of written warnings relating to dishonoured cheques for each customer of the relevant retail bank for the month in question and shall be in the form set out in Appendix BC-1. Retail bank licensees will be responsible for ensuring the accuracy of all details on their respective lists.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-5:	Dishonoured Cheques

## BC-5.1 Penalty System for Dishonoured Cheques (continued)

### BC-5.1.4

Using the lists referred to in Paragraph BC-5.1.3 above, the CBB will prepare a further list (the 'Control List') of those customers to whom two or more written warnings were sent by any one or more retail bank licensees at any time within a maximum period of three consecutive calendar months. The Control List, which will be in the form set out in Appendix BC-2, will specify the name and I.D. numbers of each such customer, the total number of dishonoured cheques for that customer included in the lists referred to in Paragraph BC-5.1.3 above, the name of the relevant bank(s) on whose list(s) the customer's name has been included, and other relevant details for banks' information and checking in accordance with Paragraph BC-5.1.5 below. Any customer to whom more than two written warnings relating to dishonoured cheques were sent by any one or more retail bank licensee at any time within a maximum period of three consecutive calendar months will be automatically deemed an abuser of cheques for the purposes of Paragraph BC-5.1.7 below.

### BC-5.1.5

On the second working day of each calendar month, the CBB will circulate a draft copy of the Control List to all retail bank licensees. Banks will be requested to check the accuracy of the Control List by reference to the information they have sent to the CBB in accordance with Paragraph BC-5.1.3 above, and to notify the CBB within a maximum period of one week of receiving the list of any inaccuracies on the Control List. The Control List, as amended if appropriate, will be circulated to retail bank licensees by the CBB on the second working day after it receives all responses from concerned banks. Retail bank licensees will be required to monitor the customers on this Control List to establish whether any one or more of them issued another dishonoured cheque in the instant calendar month. Any bank becoming aware of a dishonoured cheque of one or more of its customers on the Control List during this month should notify the CBB of this fact, using the relevant section in Appendix BC-1, on the first working day of each calendar month.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-5:	Dishonoured Cheques

## BC-5.1 Penalty System for Dishonoured Cheques (continued)

### BC-5.1.6

If the CBB does not receive any notification as contemplated in Paragraph BC-5.1.5 above for a particular customer on the Control List, that customer's name shall be withdrawn from the next issue of the Control List. However, the CBB will monitor the names of customers appearing on the Control List during the three consecutive calendar months falling immediately after the calendar month in which a customer's name is taken off the Control List. If any such customer's name is again reported to the CBB pursuant to Paragraph BC-5.1.3 above at any time during this three-month period,

- (a) His name will be returned to the Control List on the date of its next issue if there is only one dishonoured cheque reported in this context; or
- (b) He will be automatically deemed an abuser of cheques for the purposes of Paragraph BC-5.1.7 below if there is more than one dishonoured cheque reported in this context.

If, however, his name is not reported to the CBB in this regard, the CBB will cease its monitoring thereof.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC 5:	Dishonoured Cheques

## BC-5.1 Penalty System for Dishonoured Cheques (continued)

### BC-5.1.7

If the CBB does receive notification as contemplated in Paragraph BC-5.1.5 above for a particular customer on the Control List, or if a customer is deemed to be an abuser of cheques within Paragraph BC-5.1.4 or Paragraph BC-5.1.6 above, such customer (herein referred to as an 'abuser of cheques') will be penalised as follows. Using Appendix BC-3, on the second working day of the calendar month following the receipt of the information referred to above, the CBB will circulate a draft list to all retail bank licensees. Banks will be requested to check the accuracy of this list by reference to the information they have sent to the CBB in accordance with Paragraph BC-5.1.5 above, and to notify the CBB within a maximum period of one week of receiving the list of any inaccuracies on that list. The list, as amended if appropriate, will be circulated to retail bank licensees by the CBB on the second working day after it receives all responses from banks, and will direct the bank(s) which has/have reported an abuser of cheques to withdraw all cheque books held by that abuser of cheques, and to close such person's current account(s) by transferring any balances therein to saving and/or any other accounts held with that/those bank(s). Furthermore, that bank(s) must not provide current account facilities to that abuser of cheques for the twelve calendar month period immediately following the date of issue of the relevant list. All other banks should, within a maximum period of one month after the issue of the relevant list, also withdraw current account facilities from that abuser of cheques for the same twelve calendar month period. Retail bank licensees will be entitled to recover any amounts due to them from abusers of cheques as a result of compliance with this system by availing of their set-off rights under Bahrain Law.

### BC-5.1.8

On Appendix BC-4, the CBB will notify retail bank licensees of those abusers of cheques in respect of whom the twelve calendar month period referred to in Paragraph BC-5.1.7 above has ended, and to whom banks may reinstate/offer current account facilities at their discretion.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-5:	Dishonoured Cheques

## BC-5.1 Penalty System for Dishonoured Cheques (continued)

### BC-5.1.9

Nothing in this Directive shall prejudice the rights of banks against customers otherwise existing under Bahrain Law and/or under any particular bank/customer agreement. Furthermore, retail bank licensees will be entitled to the same immunity from prosecution as the CBB for any harm suffered, or alleged to be suffered, by customers as a result of banks complying with the Rule in this Chapter.

#### BC-5.1.10

This Rules may be amended, in whole or in part, from time to time by the CBB. In addition, the CBB may, at its discretion and as it so deems appropriate, issue specific directions to all or any retail bank licensees regarding abusers of cheques or any particular abuser of cheques.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-5:	Dishonoured Cheques

## BC-5.2 General Guidance on Administration of Dishonoured Cheques

**BC-5.2.1** Retail bank licensees that wish to issue cheque guarantee cards for an amount not exceeding BD 200 may do so, subject to informing the Director of Banking Services at the CBB of their intention and the arrangements governing the issue of such cards.

**BC-5.2.2** Retail bank licensees, generally, should take steps to extend their administrative supervision and control over current account customers (in particular those who are in repeated breach of normally-accepted behaviour), and to stress to account holders the need for an appropriate level of discipline in the usage of cheques.

**BC-5.2.3** Retail bank licensees should exercise greater vigilance over borrowers, especially in the area of consumer finance, where such borrowers maintain their current accounts at a bank or banks other than at the lending bank.

**BC-5.2.4** The CBB will monitor the incidence of returned cheques on a monthly basis (as stipulated in Section BC-5.1) in order to determine the extent to which such incidence is being reduced or otherwise.



<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-5:</b>	<b>Dishonoured Cheques</b>

### **BC-5.3 Penalty Charges on Dishonoured Cheques**

#### **BC-5.3.1**

The CBB will impose penalty charges of BD 5 on each returned cheque for the reasons of 'Refer to Drawer', 'Not Arranged For', 'Re-present', and 'Account Closed'. Individual banks will continue to be informed daily of any charges accruing to their accounts. The respective accounts will be debited on the same day.

#### **BC-5.3.2**

Retail bank licensees will be entitled to charge customers no more than BD 10 in respect of each dishonoured cheque.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-6:	Automated Teller Machines (ATM)

## BC-6.1 Installation of an Off-site ATM in Bahrain

BC-6.1.1 The purpose of the content of this Section is to set out the criteria to be followed by banks for the installation and usage of off-site ATMs in the Kingdom of Bahrain.

**BC-6.1.2** Applications for the installation of off-site ATMs should be sent in writing, and in accordance with the requirements set out in Paragraphs BC-6.1.3 to Paragraphs BC-6.1.10, to the Executive Director of Banking Supervision at the CBB.

### *General Criteria*

**BC-6.1.3** Subject to the prior written approval of the CBB, off-site ATMs may be owned individually or jointly by licensed retail bank licensees which are members of the BENEFIT Switch. Each relevant owning bank must already have linked its ATM capability to the BENEFIT Switch prior to requesting the CBB's permission to install an off-site ATM and, furthermore, must conform to the general standards set by the Benefit company.

**BC-6.1.4** Subject to the prior written approval of the CBB, off-site ATMs may, at each relevant owning retail bank licensee's discretion, be fully functioning or operate as cash dispensers only. In addition, off-site ATMs may, at each relevant owning bank's discretion (and subject to the prior written approval of the CBB), be 'walk-up' or 'drive-in' machines.

BC-6.1.5 Owing retail bank licensees will bear full legal responsibility for their respective off-site ATMs, as well as all costs associated with such ATMs (including, but not limited to, cash replenishment, installation, security etc.).





MODULE	BC:	Business and Market Conduct
CHAPTER	BC 6:	Automated Teller Machine (ATM)

## BC-6.1 Installation of an Off-site ATM in Bahrain (continued)

### BC-6.1.6

Retail bank licensees wishing to install an off-site ATM must submit an application (in writing) for the CBB's approval. A copy of the written permission (for installation of that off-site ATM) of the legal owner of the proposed location must be provided to the CBB, as well as a copy of the written permission of any other relevant authorities in this context (i.e. the Ministry of Interior).

### BC-6.1.7

Applications will generally be considered on a 'first come, first served' basis for a particular location. If more than one application is received to install an off-site ATM in the same location, the number of such applications which are approved will depend upon whether the location appears to the CBB to be capable of sustaining multiple off-site ATMs (subject, in addition, to the exact details of each individual application regarding security etc. being acceptable to the CBB).

### BC-6.8

Each application will be assessed on its individual merits, and at the CBB's discretion, taking into account factors which the CBB considers relevant including, but not limited to:

- (a) The suitability of the location in question;
- (b) The level of overall activities of the applicant in the market as well as the size and make-up of its customer base; and
- (c) The type and range of facilities which the applicant proposes offering through the off-site ATM at the location in question.

### BC-6.1.9

In addition to the information required by the CBB under Paragraph BC-6.1.6, the CBB may require further information/clarification to be provided to it before it takes a decision regarding the application. The CBB's decision in this regard will be notified to each relevant applicant bank in writing and will be final.

### BC-6.1.10

The CBB may, at its discretion, require an off-site ATM to be closed at any time. In addition, an owning bank may request in writing to the CBB permission to close any of its off-site ATMs.



<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-6:</b>	<b>Automated Teller Machine (ATM)</b>

## **BC-6.2 GCC ATM Network Charges**

BC-6.2.1 The purpose of this Section is to set a limit on ATM service charges imposed by retail bank licensees in the Kingdom of Bahrain for customer withdrawals and other ATM transactions relating to other banks in the GCC (i.e. linking to GCC ATM networks).

**BC-6.2.2** The limits in this Section do not apply to ATM service charges on local ATM networks.

**BC-6.2.3** The CBB requires that the charges on such customer withdrawals and other ATM services should not exceed BD 1 per transaction.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-7:	Margin Trading System

## BC-7.1 Introduction

**BC-7.1.1** This Chapter applies to all retail banks in Bahrain.

BC-7.1.2 Investors purchasing securities listed on any licensed exchange may pay for them under the Margin Trading System ("The System") by borrowing a portion of the purchase price from a participating bank. The System is subject to relevant provisions of the CBB Law, the Rulebook of the licensed exchange, any rules and regulations issued pursuant to such Law, Rulebook and this Module. The System applies to equities in companies listed on any licensed exchange. Unless restrictions apply under Bahrain law in this regard, the System shall be available to Bahraini or non-Bahraini investors, whether resident or non-resident in Bahrain.

BC-7.1.3 The main objective of the System is to enhance the overall activity on any licensed exchange, allowing investors to leverage their investments, in a controlled manner.

### *General Criteria*

**BC-7.1.4** Only retail banks will be permitted as participating banks for the System. Participating banks must each receive the prior general written approval of the CBB in order to take part in the System. The CBB will notify the licensed exchange of the identity of participating banks. The CBB's approval may be withdrawn at its discretion.

**BC-7.1.5** SRO members who are not retail banks will not be permitted to act as lenders for the System.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-7:	Margin Trading System

## BC-7.2 Limits and Trading Rules

### BC-7.2.1

An investor may, through his relationship with any participating bank under the System, invest in securities made up by way of the investor's own initial margin and by way of financing from the relevant participating bank to that investor.

### BC-7.2.2

Such financing referred to in Paragraph BC-7.2.1 is subject to the limit on margin percentage given in Paragraph BC-7.2.10.

### BC-7.2.3

The amount of the margin facility made to an investor under the System shall be included as an exposure to that customer, and contribute towards the large exposures limit and the consumer finance limit for that person.

### BC-7.2.4

The total amount of financing granted by an individual participating bank to all investors under the System shall not, at any time exceed 15% of that participating bank's capital base, such percentage to be reviewed by the CBB at its discretion from time to time.

### BC-7.2.5

The CBB will require participating banks to inform the Credit Risk Bureau ('CRB') of all facility limits approved to investors under the System from time to time. Participating banks must check with the CRB on the amount of facility limits outstanding under the System at any time to a particular investor.

#### *SRO Members*

### BC-7.2.6

Only licensed SRO members who meet the requirements to participate in the System and are authorised as such by the licensed exchange and the CBB will be permitted to act as brokers for the System.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-7:	Margin Trading System

## BC-7.2 Limits and Trading Rules (continued)

### *Documentation*

#### BC-7.2.7

Only standard-form documents (application forms and agreements) will be used for the System. Standard-form agreements, drafted and approved in advance by the licensed exchange, will be entered into between the participating bank and the investor (in respect of financing), and between the participating bank and the investor and the SRO member (in respect of trading) and, as relevant, these agreements shall (amongst other things) confirm that:

- (a) The investor is borrowing or financing a stated amount from the participating bank for the purpose of taking part in the System;
- (b) The investor will repay such stated amount, together with any interest or charges thereon, when due and in accordance with the agreement;
- (c) The investor understands the risks involved in margin trading as well as the implications of the undertakings given by him;
- (d) The participating bank can sell the securities bought through the System if the relevant margin is called and not met, without further formalities being required;
- (e) The SRO member is liable for marking the securities to market on a daily (or more frequent) basis and for keeping the participating bank updated as to the participating bank's exposure to the investor;
- (f) The investor can place orders with the broker for the purchase of securities up to the limit permitted by the agreement;
- (g) Each party to the agreement in question shall abide by the duty of confidentiality imposed on him in relation to the matters set out in the agreement; and
- (h) There is an overriding obligation on the parties thereto to comply with Bahrain law in general and, in particular, with the share-ownership restrictions applying to certain types of securities.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-7:	Margin Trading System

## BC-7.2 Limits and Trading Rules (continued)

### *Owner of the Securities bought Using the System*

**BC-7.2.8** For ease of transfer and sale of the securities in the event that a margin is called by the participating bank but not met by the investor, the securities will be registered in the participating bank's name (for the account of the investor) and held by a custodian.

**BC-7.2.9** Under Paragraph BC-7.2.8 above; (a) the securities should not be considered as part of the bank's own assets for the purposes of determining ownership/control under Bahrain law, and (b) if the investor has discharged his obligations to the participating bank under the System and the securities have not been sold, the securities shall be transferred into the legal ownership of the investor.

### *Margin Percentage*

**BC-7.2.10** For equities listed on any licensed exchange, an investor shall have the right to borrow a loan the value of which shall not exceed 50% of the total value of the funds being invested (i.e. 1:1). The CBB and the licensed exchange shall coordinate in making any change to the margin percentages set for the System.

### *Margin Call Top-up*

**BC-7.2.11** The margin call top-up shall be 30% of the total value of the funds invested by an investor through a margin account with a participating bank. An investor shall settle a margin call on the settlement date (as determined by the BSE) by making a cash payment of such amount to the participating bank. Such cash payment may, at the investor's discretion and in whole or part, come from the sale of the securities bought through the System, or otherwise. Failure to meet such margin call will, however, give the participating bank the right to sell the securities bought through the System.

### *Margin Interest*

**BC-7.2.12** The participating bank shall charge a rate of interest or impose charges on the financing amount granted to the investor at a rate or on a basis to be determined by the participating bank. In the event that investor's margin account is in credit in excess of the margin applicable thereto, interest or profit shall be paid on the excess at a rate to be determined by the participating bank.



<b>MODULE</b>	<b>BC:</b>	<b>Business and Market Conduct</b>
<b>CHAPTER</b>	<b>BC-8:</b>	<b>Investment Business Activities</b>

## **BC-8.1 Scope of Application in Relation to Customer Categories**

BC-8.1.1 This Chapter provides for two categories of customers, and applies different levels of protection to each, depending on their level of sophistication.

**BC-8.1.2** The scope of application of this Chapter BC-8 with regards to customer categories is as follows:

Section	Subject Matter	Customer Category
BC-8.3	Overarching Principles	All categories.
BC-8.4	Customer Classification	All categories.
BC-8.5	Marketing and Promotion	All categories; BC-8.5.3 and BC-8.5.4 apply to retail customers on
BC-8.6	Accepting Customers	Retail customers only.
BC-8.7	Suitability	Retail customers only.
BC-8.8	Disclosure of Information	All categories; BC-8.8.5 to BC-8.8.12 apply to retail customers onl
BC-8.9	Dealing and Managing	All categories; various Rules apply to retail customers only.
BC-8.10	Reporting to Customers	All categories.
BC-8.11	Complaints	All categories.
BC-8.12	Conflicts of Interest	All categories.
BC-8.13	Appendix	All categories; various Paragraphs apply to retail customers only.

### *Overseas Branches and Subsidiaries*

**BC-8.1.3** Locally incorporated conventional bank licensees must ensure that their branches and subsidiaries operating in foreign jurisdictions comply, at a minimum, with local conduct of business standards and regulatory requirements (where applicable).

**BC-8.1.4** For branches of foreign banks located in Bahrain, these requirements only apply to the business and customers of the Bahrain branch.

BC-8.1.5 The CBB encourages locally incorporated conventional bank licensees to apply – with respect to their overseas branches and subsidiaries - conduct of business standards at least equivalent to those set out in this Module. Where this is not the case, the CBB will consider any potential risk to the conventional bank licensee that may arise through adverse reputational or other consequences.



MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-8:	<b>Investment Business Activities</b>

## BC-8.2 General Rules

**BC-8.2.1** This Module applies to the regulated banking services listed in Subparagraphs LR-1.3.1 (f to l) of all conventional bank licensees.

BC-8.2.2 This Module aims to encourage high standards of business conduct, which are broadly applicable to all conventional bank licensees, all regulated banking services referred to in Paragraph BC-8.2.1, and all types of customers. The CBB, nevertheless, recognises that customers' level of sophistication and understanding of risks underlying financial instruments vary. Accordingly, the level of safeguards provided for in the business conduct requirements for retail customers, for instance, are different from those for accredited investors.

**BC-8.2.3** This Chapter comprises a number of overarching principles of business conduct, with respect to the conduct of regulated banking services by conventional bank licensees; these cover the various stages of the life of a customer relationship.

**BC-8.2.4** Conventional bank licensees must maintain adequate records to demonstrate compliance with the requirements in this Chapter.

BC-8.2.5 The CBB will monitor compliance with this Chapter. If required, the CBB may develop more detailed rules and guidance to supplement the existing IBCP.





MODULE	BC:	Business and Market Conduct
CHAPTER	BC-8:	Investment Business Activities

### BC-8.3 Overarching Principles

#### BC-8.3.1

In the course of offering regulated banking services listed in Paragraph BC-8.2.1, licensees must:

- (a) Act with due skill, care and diligence in all dealings with customers;
- (b) Act fairly and reasonably in all dealings with customers;
- (c) Identify customers' specific requirements in relation to the products and services about which they are enquiring;
- (d) Ensure that any advice to customers is aimed at the customers' interests and based on adequate standards of research and analysis;
- (e) Provide sufficient information to enable customers to make informed decisions when purchasing investment products and services offered to them;
- (f) Provide sufficient and timely documentation to customers to confirm that their investment arrangements are in place and provide all necessary information about their products, rights and responsibilities;
- (g) Maintain fair treatment of customers through the lifetime of the customer relationships, and ensure that customers are kept informed of important events;
- (h) Ensure complaints from customers are dealt with fairly and promptly;
- (i) Ensure that all information provided to customers is clear, fair and not misleading, and appropriate to customers' information needs; and
- (j) Take appropriate measures to safeguard any money and property handled on behalf of customers and maintain confidentiality of customer information.

BC-8.3.2 The Rules contained in Chapter BC-8 are largely principles-based and focus on desired outcomes rather than on prescribing detailed measures to achieve those outcomes. This gives conventional bank licensees flexibility in how to implement the basic standards prescribed in this Module.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-8:	Investment Business Activities

## BC-8.4 Customer Classification

### BC-8.4.1

A conventional bank licensee must classify the persons with or for whom it intends to carry on regulated banking services listed in Paragraph BC-8.2.1, in accordance with the requirements in this Section, and communicate its classification to the person concerned. The customer must be notified of his/her customer classification before any documentation is finalised or where regulated banking services or products listed in Paragraph BC-8.2.1 are offered.

### BC-8.4.2

The purpose of the classification is to ensure that conventional bank licensees' customers are appropriately categorised so that regulatory protections are focused on those classes of customer that need them most: 'The following wording may be used for customer notification of status. 'According to the Central Bank of Bahrain Rulebook, we are required to notify all customers of their status for the purpose of investment business and certain regulated banking services. For the purpose of this relationship, you are classified as an accredited investor/retail customer.'

### BC-8.4.3

Before conducting regulated banking services listed in Paragraph BC-8.2.1 with or for any person, a conventional bank licensee must take reasonable steps to obtain appropriate information to establish whether that person is an accredited investor or a retail customer.

### BC-8.4.4

The treatment of a conventional bank licensee's customers must be in accordance with the classification it has established for the purpose of Rule BC-8.4.3.

### BC-8.4.5

Where specific rules do not exist for a particular class of customers, the CBB requires appropriate treatment in accordance with the overarching principles set forth in Section BC-8.3.



MODULE	BC:	Business and Market Conduct
CHAPTER	BC-8:	Investment Business Activities

## BC-8.4 Customer Classification (continued)

### *Accredited Investors*

BC-8.4.6

For the purpose of Rule BC 8.4.3, an accredited investor includes:

- (a) Individuals holding financial assets (either singly or jointly with their spouse) of USD 1,000,000 or more;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1,000,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).

BC-8.4.7

Conventional bank licensees must notify a customer (that is not licensee of the CBB or a licensed financial institution in a foreign country) in writing, that he is being classified as an accredited investor and provide a written warning that he will not benefit from the specific protections afforded to retail investors.

BC-8.4.8

Persons classified as accredited investors under Rule BC-8.4.6 may, however, request treatment as retail customers where the concerned product is a listed security or is retail in nature, in which case conventional bank licensees must agree to treat them as retail customers.

BC-8.4.9

A retail customer, as defined in Rule BC-8.4.10, may voluntarily elect to be treated as an accredited investor. In this instance the conventional bank licensee must obtain a signed declaration to that effect prior to any provision of regulated banking services.

### *Retail Customer*

BC-8.4.10

For the purposes of Rule BC-8.4.3 a retail customer means a customer who is not classified as an accredited investor under Rule BC-8.4.6.

### *Records*

BC-8.4.11

A conventional bank licensee must make a record of the classification established for each customer, including sufficient information to support such classification.



MODULE	BC:	<b>Business and Market Conduct</b>
CHAPTER	BC-8:	<b>Investment Business Activities</b>

## BC-8.5 Marketing and Promotion

BC-8.5.1 The requirements of this section apply to product specific or service specific material and not to general brand awareness promotional material.

**BC-8.5.2** Conventional bank licensees must ensure that all advertising and promotional material that is sent to any class of customer is fair, clear and not misleading.

BC-8.5.3 With respect to retail customers, in ensuring that the description of the product or the service in the promotional material is fair, clear and not misleading, the conventional bank licensee should, among other precautionary measures, ensure that:

- (a) The purpose, and to the extent practicable, the content, of the information or communication are likely to be understood by the average member of the group to whom the communication is addressed;
- (b) Key items contained in the information are given due prominence;
- (c) The method of presentation in the information does not disguise, diminish, or obscure important risks, warnings or information; and
- (d) The communication does not omit information that is material to ensure it is fair, clear and not misleading.

BC-8.5.4 In ensuring that the description of the product or the service in the promotional material is fair, the conventional bank licensee should avoid exaggerating the potential benefits of the investment service or financial instrument in any communication with a retail customer or potential retail customer.

BC-8.5.5 In ensuring that the description of the product or the service in relation to promotional material directed at retail customers is adequate, the conventional bank licensee should: ensure that the promotional material contains a balanced description of the main characteristics of the financial instrument and/or service state it relates, including the nature of the financial commitment and risks involved; whether or not the financial instruments involved are illiquid, and traded in a recognised exchange or market; the existence or absence of any right of withdrawal or cancellation and, where such a right exists, its duration and the conditions for exercising it, including information on any amount that the retail customer may be required to pay to exercise that right; and state if the communication relates to a financial instrument or service of a person other than the conventional bank licensee, the name of the person.

**BC-8.5.6** Conventional bank licensees must ensure that the accuracy of all material statements of fact in promotional materials is supported by adequate evidence.



MODULE	BC:	Business and Market Conduct
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## BC-8.5 Marketing and Promotion (continued)

**BC-8.5.7** Conventional bank licensees must not, in any form of communication with an individual customer or any class of customer, unreasonably attempt to limit or avoid any duty or liability it may have to that individual customer or class of customer in relation to regulated banking services, unless otherwise agreed in writing by both parties.

BC-8.5.8 An example of an unreasonable attempt to limit liability is where a financial product is given protection or compensation status in its home country and such status is not given by the Bahrain Bank (or branch) to its customers.

**BC-8.5.9** Conventional bank licensees that underwrite or market public offerings must ensure that their promotional material complies with the relevant capital markets disclosure standards of the CBB.

BD-8.5.10 Capital markets disclosure standards are currently contained in the Disclosure Standards Regulation of 3 December 2003.

### *Content of Promotions*

**BC-8.5.11** Before a conventional bank licensee communicates any promotional material on a specific product or service to a customer or a potential customer it must ensure that the promotional material at the very least contains the information laid out in Paragraph BC-8.13.1.

**BC-8.5.12** Conventional bank licensees must not make use of the name of the CBB in any promotion in such a way that would indicate endorsement or approval of its products or services.

### *Records*

**BC-8.5.13** Conventional bank licensees must maintain a record of all promotional materials issued by them or on their behalf.

### *Real Time Promotions*

**BC-8.5.14** Conventional bank licensees must not make a real time promotion to retail customers unless the concerned customer has been notified of the fact in advance and has agreed in writing to receive real time promotions.



<b>MODULE</b>	<b>BC: Business Conduct</b>
<b>CHAPTER</b>	<b>BC-8: Investment Business Activities</b>

## BC-8.5 Marketing and Promotion (continued)

BC-8.5.15 For the purposes of Paragraph BC-8.5.14, a real time promotion is a promotion made in the course of a personal visit, telephone conversation or other interactive dialogue.

BC-8.5.16 Consent to receive real time promotions could be, for instance, at the time of the initial customer profiling, by means of signing a form clearly indicating such consent.

**BC-8.5.17** A representative of the conventional bank licensee must, on making contact for the first time with a customer, and again at any time when asked to do so by the customer:

- (a) Identify himself as being a representative of the conventional bank licensee;
- (b) State the name of the conventional bank licensee; and
- (c) Present the customer with a business card on meeting that customer, unless he has given him such a card at a previous meeting. The business card must include a statement of the conventional bank licensee's licensing status.

BC-8.5.18 For the purposes of Rule BC-8.5.17(c), the statement on the business card should make clear the licensing status of the conventional bank licensee; however it should not lead the customer to believe that the product being offered has been approved by the CBB. The suggested wording for the statement of licensing status is as follows: "Licensed as a conventional retail /wholesale bank by the CBB".



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## BC-8.5 Marketing and Promotion (continued)

### BC-8.5.19

In oral communications with a retail customer, whether in person or by telephone, the representative of the conventional bank licensee must:

- (i) Conduct himself in a polite manner and respect the wishes of the customer;
- (ii) State the genuine purpose of the call at the commencement of the conversation;
- (iii) Ascertain whether or not the customer wishes him to proceed with the conversation if the time of the conversation was not previously agreed by the customer;
- (iv) Explain clearly the financial instruments or other services which he is authorised to arrange;
- (v) Recognise and respect the right of the customer to terminate the call at any time; and
- (vi) If he requests another appointment and the customer refuses, shall accept that refusal courteously and in such a manner as to cause no embarrassment to the customer.

### *Records*

### BC-8.5.20

Conventional bank licensees must keep sufficient records of real time promotions made by them, or on their behalf by other persons, for CBB's supervision purposes.

### BC-8.5.21

These records should include evidence that customers have been notified in advance and agreed to receive real time promotions, as required under Rule BC-8.5.14.



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## BC-8.6 Accepting Customers

### *Applicability*

**BC-8.6.1** This Section applies to retail customers only.

### *Terms of Business*

**BC-8.6.2** Conventional bank licensees must provide their retail customers with their terms of business, setting out the basis on which the regulated banking services are to be conducted (see also Paragraph BC-8.8.13).

**BC-8.6.3** The terms of business in relation to providing regulated banking services as defined in Paragraph BC-8.2.1 to a retail customer must take the form of a customer agreement.

**BC-8.6.4** The terms of business must include the rights and obligations of parties to the agreement, as well as other terms relevant to the regulated banking services. The terms of business must include, but are not limited to, the items included in Paragraph BC-8.13.2.

BC-8.6.5 An application form in relation to regulated banking services will be deemed to be a customer agreement, provided the form includes the principal terms and conditions of the service, such that the customer is provided sufficient information to allow him to understand the basis on which the service is to be conducted.

**BC-8.6.6** The customer agreement must be provided in good time prior to providing the regulated banking service.

BC-8.6.7 For the purposes of Rule BC-8.6.6, 'good time' should be taken to mean sufficient time to enable the customer to consider properly the service or financial instrument on offer before he is bound.

### *Customer Understanding and Acknowledgement*

**BC-8.6.8** Conventional bank licensees must not enter into a customer agreement unless they have taken reasonable care to ensure that their retail customer has had a proper opportunity to consider the terms.

**BC-8.6.9** Conventional bank licensees must obtain their retail customer's consent to the terms of the customer agreement as evidenced by a signature or an equivalent mechanism.





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## BC-8.6 Accepting Customers (continued)

BC-8.6.10 The equivalent mechanism refers to instances where a customer may have signed a mandate letter or other document accompanying the terms of the customer agreement.

BC-8.6.11 The customer agreement must contain the signatures of both parties to the agreement. If the agreement is signed by only the customer (in case it is in the form of an application), copies of the signed agreement must be provided by the conventional bank licensee to the customer.

### *Records*

BC-8.6.12 Conventional bank licensees must keep sufficient records of customer agreements and any documents referred to in the customer agreement as soon as the agreement comes into force, for CBB's supervision purposes.

BC-8.6.13 Detailed record-keeping requirements are contained in Module GR (General Requirements) and Module FC (Financial Crime).



MODULE	BC:	Business Conduct
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## BC-8.7 Suitability

### *Applicability*

**BC-8.7.1** This Section applies to retail customers only.

### *Information and Communication*

**BC-8.7.2** Conventional bank licensees must seek information from their retail customers (and potential retail customers about their needs, circumstances and investment objectives (including their risk appetite), relevant to the services to be provided.

BC-8.7.3 For the purposes of Rule BC-8.7.2, the conventional bank licensee, when providing the regulated investment services, should ask the customer or potential customer to provide information regarding his knowledge and experience in the investment field relevant to the specific type of financial instrument or service offered or demanded so as to enable the licensee to assess whether the financial instrument or service is appropriate to the customer. The evaluation of the customer's needs, circumstances and investment objectives (including risk appetite) can be done through a structured questionnaire.

**BC-8.7.4** For the purposes of satisfying the requirement under Rule BC-8.7.2, conventional bank licensees must ensure that the information and facts they hold about their customers are accurate, complete and up to date.

**BC-8.7.5** Where a conventional bank licensee is managing financial instruments for a customer, it must periodically assess whether the customer's portfolio or account remains suitable over the lifetime of the customer relationship and advise the customer if it is no longer suitable.

**BC-8.7.6** Where a conventional bank licensee has pooled a customer's assets with those of others, with a view to taking common discretionary management decisions, the conventional bank licensee must take reasonable steps to ensure that the transaction is suitable for the related customers having regard to their stated investment objectives.

### *Records*

**BC-8.7.7** Conventional bank licensees must keep a record of each recommendation made to retail customers, and be able to demonstrate to the CBB compliance with this Section.



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## BC-8.8 Disclosure of Information

### *Applicability*

**BC-8.8.1** This Section applies to conventional bank licensees in relation to their dealings with all categories of customers, except when stated otherwise.

### *Initial Disclosure Requirement*

**BC-8.8.2** A conventional bank licensee must provide (with respect to regulated banking services), comprehensible information to customers or potential customers on:

- (a) Itself and the types of services that it can provide;
- (b) Whether it is acting as agent or principal;
- (c) Fees, costs and associated charges payable by the customer such as:
  - (i) The basis or amount of its charges, remuneration and commission for conducting regulated financial services and
  - (ii) The nature or amount of any other income receivable by it or, to its knowledge, by its associate and attributable to that regulated banking service;
- (d) Financial instruments and proposed strategies and appropriate guidance on and warnings of the risks associated with those financial instruments and strategies; and
- (e) Information about methods of redress.

BC-8.8.3 The purpose of Paragraph BC-8.8.2 is to ensure that customers are reasonably able to understand the nature and risks of the investment service and type of financial instrument that is being offered and, consequently, to take investment decisions on an informed basis. This information may be provided in standard format.

### *Risks*

**BC-8.8.4** Conventional bank licensees must disclose adequate information to all classes of customers about risks underlying the financial instrument that are not readily apparent and which relate to the regulated banking service being provided.



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## BC-8.8 Disclosure of Information (continued)

**BC-8.8.5** Without prejudice to the scope of the requirement under Rule BC-8.8.2(c), conventional bank licensees must provide retail customers with appropriate guidance on, and warnings of, relevant risks when providing regulated banking services, in relation to:

- (a) Transactions in illiquid financial instruments;
- (b) Leveraged transactions, including asset portfolios or collective investment schemes that have embedded leverage;
- (c) Financial instruments subject to high volatility in normal market conditions;
- (d) Securities repurchase agreements or securities lending agreements;
- (e) Transactions which involve credit, margin payments, or deposit of collateral;
- (f) Transactions involving material foreign exchange risk;
- (g) Interests in real estate; and/or
- (h) Islamic financial instruments.

**BC-8.8.6** In relation to transactions involving warrants or derivatives, conventional bank licensees must provide retail customers with a written statement that includes explanations of their characteristics, in particular their leverage effect, liquidity and price volatility.

BC-8.8.7 To satisfy Rule BC-8.8.6, with respect to warrants, conventional bank licensees should provide retail customers with a statement that includes, at a minimum, the information contained in Paragraph BC-8.13.3.

BC-8.8.8 To satisfy Rule BC-8.8.6, with respect to futures contracts, conventional bank licensees should provide retail customers with a statement that includes, at a minimum, the information contained in Paragraph BC-8.13.4.

BC-8.8.9 To satisfy Rule BC-8.8.6, with respect to option transactions, conventional bank licensees should provide retail customers with a statement that includes, at a minimum, the information contained in Paragraphs BC-8.13.5 and BC-8.13.6.

**BC-8.8.10** In relation to a transaction in a financial instrument that is not readily realisable, conventional bank licensees must:

- (a) Warn the retail customer that there is a restricted market for such financial instruments, and that it may therefore be difficult to deal in the financial instrument or to obtain reliable information about its value; and



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## BC-8.8 Disclosure of Information (continued)

- (b) Disclose any position knowingly held by the conventional bank licensee or any of its associates in the financial instrument or in a related financial instrument.

**BC-8.8.11** The risk warning given to a retail customer or potential retail customer must be given due prominence in all related materials and must not be concealed or masked in any way by the wording, design or format of the information provided.

**BC-8.8.12** Risk warnings provided to a retail customer or potential retail customer about warrants or derivatives must make clear that the instrument can be subject to sudden and sharp falls in value. Where the retail customer may not only lose his entire investment but may also be required to pay more later, he must also be warned about this fact and the possible obligation to provide extra funding.

### *Cancellation and Withdrawals*

**BC-8.8.13** Conventional bank licensees must disclose in their terms of business the existence or absence of a right to cancel as per the provisions of Paragraph BC-8.6.2.

**BC-8.8.14** Conventional bank licensees must pay due regard to the interests of their customers and treat them fairly.

### *Records*

**BC-8.8.15** Conventional bank licensees must keep a record of statements issued in compliance with Rule BC-8.8.6, and of other information or recommendations provided to their customers, and be able to demonstrate to the CBB compliance with this Section.



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## BC-8.9 Dealing and Managing

**BC-8.9.1** Conventional bank licensees must apply the requirements contained in this Section to all customer categories.

### *Best and Timely Execution*

**BC-8.9.2** Conventional bank licensees must take all reasonable steps to obtain, when executing orders, the best possible result for customers taking into account price, costs, speed, likelihood of execution and settlement, and any other consideration relevant to the execution of the order (subject to Paragraph BC-8.9.5 below).

**BC-8.9.3** Conventional bank licensees must establish and implement effective arrangements for complying with Rule BC-8.9.2 including:

- (a) Execution policies for each class of financial instrument;
- (b) Maintenance of and disclosure to customers of information regarding execution venues and arrangements for disclosure to customers if orders are to be executed outside regulated markets;
- (c) Monitoring of effectiveness of the order execution arrangements and execution policies in order to identify and, where appropriate, correct any deficiencies; and
- (d) Maintenance of audit trails to demonstrate to their customers that orders were executed in accordance with the relevant execution policy.

**BC-8.9.4** Conventional bank licensees are not required to provide best execution (as defined Paragraph in BC-8.9.5 below) where they have agreed with the customer in writing that they will not provide best execution.

BC-8.9.5 In determining whether a conventional bank licensee has taken reasonable care to provide the best overall price for a customer in accordance with Rules BC-8.9.2 to BC-8.9.4, the CBB will take into account whether an conventional bank licensee has:

- (a) Executed orders promptly and sequentially;
- (b) Discounted any fees and charges previously disclosed to the customer;
- (c) Disclosed the price at which an order is executed; and
- (d) Taken into account the available range of price sources for the execution of its customers' transactions. In the case where the conventional bank licensee has access to prices of different regulated financial markets or alternative trading systems, it must execute the transaction at the best overall price available having considered other relevant factors.



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## BC-8.9 Dealing and Managing (continued)

### BC-8.9.6

Conventional bank licensees may only postpone the execution of a transaction if it is in the best interests of the customer, and the prior consent of the customer has been given, or when circumstances are beyond its control. The conventional bank licensee must maintain a record of all postponements together with the reasons for the postponement.

- BC-8.9.7 Factors relevant to whether the postponement of an existing customer order may be in the best interests of the customer include where:
- The customer order is received outside of normal trading hours;
  - A foreseeable improvement in the level of liquidity in the financial instrument is likely to enhance the terms on which the conventional bank licensee can execute the order; or
  - Executing the order as a series of partial executions over a period of time is likely to improve the terms on which the order as a whole is executed.

### *Non-market Price Transactions*

### BC-8.9.8

Conventional bank licensees must not enter into a non-market price transaction in any capacity, with or for a customer, if it has reasonable grounds to suspect that the customer is entering into the transaction for an illegal or improper purpose.

- BC-8.9.9 For the purposes of Paragraph BC-8.9.8, a non-market price transaction is one where the price paid by the conventional bank licensee, or its customer, differs from the prevailing market price. With respect to transactions in financial instruments traded on a licensed exchange, licensees are reminded that in Bahrain the law prohibits off-market transactions.

- BC-8.9.10 For the purposes of Paragraph BC-8.9.8, examples of improper purposes for transactions include:
- The perpetration of a fraud;
  - The disguising or concealment of the nature of a transaction or of profits, losses or cash flows;
  - Transactions which amount to market abuse;
  - High-risk transactions under the Anti Money Laundering Regulations; and
  - "Window dressing", in particular around the year end, to disguise the true financial position of the person concerned.

### BC-8.9.11

Rule BC-8.9.8 does not apply to a non-market-price transaction if it is subject to the rules of a recognised investment exchange.



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## BC-8.9 Dealing and Managing (continued)

### *Aggregation and Allocation*

- BC-8.9.12** Conventional bank licensees may only aggregate an order for a customer with an order for other customers, or with an order for its own account, where:
- It is unlikely that the aggregation will disadvantage the customers whose orders have been aggregated; and
  - It has disclosed to each customer concerned in writing that it may aggregate orders, where these work to the customer's advantage.
- BC-8.9.13** If a conventional bank licensee has aggregated orders of customers, it must make a record of the intended basis of allocation and the identity of each customer before the order is effected (subject to the “best execution” provisions of Paragraph BC-8.9.2).
- BC-8.9.14** Where an allocation takes place, prices must not be marked up.
- BC-8.9.15** Conventional bank licensees must have written policies on aggregation and allocation which are consistently applied; these must include the policy that will be adopted when only part of the aggregated order has been filled.
- BC-8.9.16** Where a conventional bank licensee has aggregated a customer order with an order for other customers or with an order for its own account, and part or all of the aggregated order has been filled, it must:
- Promptly allocate the financial instruments concerned;
  - Allocate the financial instruments in accordance with its stated policy;
  - Ensure the allocation is done fairly and uniformly by not giving undue preference to itself or to any of those for whom it dealt;
  - Give priority to satisfying customer orders where the aggregation order combines a customer order and an own account order, if the aggregate total of all orders cannot be satisfied, unless it can demonstrate on reasonable grounds that without its own participation it would not have been able to execute those orders on such favourable terms, or at all; and
  - Make and maintain a record of:
    - The date and time of the allocation;
    - The relevant financial instruments;
    - The identity of each customer concerned; and





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## BC-8.9 Dealing and Managing (continued)

- (iv) The amount allocated to each customer and to the conventional bank licensee.

### *Excessive Dealing*

BC-8.9.17

Conventional bank licensees must not advise any customer to transact with a frequency or in amounts that might result in those transactions being deemed excessive in light of historical volumes, market capitalisation, customer portfolio size and related factors. This Rule does not apply to customers classified as market counterparties.

### *Right to Realise a Retail Customer's Assets*

BC-8.9.18

Conventional bank licensees must not realise a retail customer's assets, unless it is legally entitled to do so, and has either:

- (a) Set out in the terms of business:
- (i) The action it may take to realise any assets of the retail customer;
  - (ii) The circumstances in which it may do so;
  - (iii) The asset (if relevant) or type or class of asset over which it may exercise the right; or
- (b) Given the retail customer written or oral notice of its intention to exercise its rights before it does so.

### *Margin Requirements*

BC-8.9.19

Before conducting a transaction with or for a retail customer, conventional bank licensees must notify the customer of:

- (a) The circumstances in which the customer may be required to provide any margin;
- (b) The form in which the margin may be provided;
- (c) The steps the conventional bank licensee may be required or entitled to take if the customer fails to provide the required margin, including:
- (i) The fact that the customer's failure to provide margin may lead to the conventional bank licensee closing out his position after a time limit specified by the firm;



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## BC-8.9 Dealing and Managing (continued)

- (ii) The circumstances in which the conventional bank licensee will have the right or duty to close out the customer's position; and
- (iii) The circumstances, other than failure to provide the required margin, that may lead to the conventional bank licensee closing out the customer's position without prior reference to him.

### BC-8.9.20

Conventional bank licensees must close out a retail customer's open position if that customer has failed to meet a margin call within a maximum of five business days following the date on which the obligation to meet the call accrues, unless:

- (a) The conventional bank licensee has received confirmation from a relevant third party (such as a clearing firm) that the retail customer has given instructions to pay in full; or
- (b) The conventional bank licensee has taken reasonable care to establish that the delay is owing to circumstances beyond the retail customer's control.

BC-8.9.21 For the purposes of Rule BC-8.9.20, conventional bank licensees may require the closing of a retail customer's open position in less than five business days, for their own risk management purposes.

BC-8.9.22 Conventional bank licensees must also follow the requirements of Chapter BC-7 concerning the operation of the margin trading system.

### *Programme Trading*

### BC-8.9.23

Before a conventional bank licensee executes a programme trade, it must disclose to its customer whether it will be acting as a principal or agent. A conventional bank licensee must not subsequently act in a different capacity from that which is disclosed without the prior consent of the customer.

BC-8.9.24 The term 'programme trade' describes a single transaction or series of transactions executed for the purpose of acquiring or disposing of, for a customer, all or part of a portfolio or a large basket of financial instruments.



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## BC-8.9 Dealing and Managing (continued)

### BC-8.9.25

Conventional bank licensees must ensure that neither they, nor an associate, execute an own account transaction in any financial instrument included in a programme trade, unless they have notified the customer in advance that they may do this, or can otherwise demonstrate that they have provided fair treatment to the customer concerned.

#### *Records*

### BC-8.9.26

Conventional bank licensees must keep a record of each step they undertake in relation to each transaction to demonstrate to the CBB compliance with Section BC-8.9.



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## BC-8.10 Reporting to Customers

**BC-8.10.1** Section BC-8.10 applies to all customer categories.

### *Confirmation of Transactions*

**BC-8.10.2** When a conventional bank licensee executes a transaction in a financial instrument for a customer on a specific order, it must establish procedures to keep the customer informed of the essential details of the transaction and essential information regarding the carrying out of his order.

BC-8.10.3 For the purposes of Rule BC-8.10.2, the essential details of the transaction and essential information regarding the carrying out of the order include:

- (a) Execution price;
- (b) Charges; and
- (c) Date of execution.

**BC-8.10.4** For the purposes of Rule BC-8.10.2, conventional bank licensees must include at the very least in their confirmation notes, the information included in Paragraph BC-8.13.7.

### *Periodic Statements*

**BC-8.10.5** Conventional bank licensees must promptly and at suitable intervals provide their customers with a written statement when they:

- (a) Undertake the activity of managing financial instruments; or
- (b) Operate a customer's account containing financial instruments.

**BC-8.10.6** Conventional bank licensees must provide a periodic statement:

- (a) Monthly, if the customer is a retail customer and the retail customer's portfolio includes derivative transactions in highly volatile classes of financial instruments or leveraged transactions; or
- (b) At least every six-months in other cases.

**BC-8.10.7** Periodic statements, issued in accordance with Rule BC-8.10.6, must contain, at the very least, the information contained in Paragraph BC-8.13.8, as at the end of the period covered.

**BC-8.10.8** Where a conventional bank licensee undertakes the activity of managing financial instruments on a discretionary basis, the periodic statements, issued in accordance with Rule BC-8.10.6, must also include at the very least the information included in Paragraph BC-8.13.9.



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## BC-8.10 Reporting to Customers (continued)

**BC-8.10.9** In addition to Rules BC-8.10.7 and BC-8.10.8, where the retail customer may not only lose his entire investment but may also be required to pay more later, conventional bank licensees must also include the additional information included in Paragraph BC-8.13.10.

### *Records*

**BC-8.10.10** Conventional bank licensees must immediately record the essential elements of all orders that are received.

BC-8.10.11 For the purposes of Rule BC-8.10.10, essential elements of orders received include the particulars of the customer and order, time, price of execution, and number of instruments.

**BC-8.10.12** Conventional bank licensees must record the essential elements of all:

- (a) Orders executed;
- (b) Transactions executed for their own account;
- (c) Non-market price transactions entered into by the conventional bank licensee; and
- (d) Orders that have been aggregated with their basis of allocation.

BC-8.10.13 For purposes of Rule BC-8.10.12, conventional bank licensees should include, at the very least, the information provided in Paragraph BC-8.13.9.

**BC-8.10.14** Conventional bank licensees must make a copy of any confirmation of a transaction or periodic statement provided to a customer, and retain it for at least five years from the date on which it was provided.



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## BC-8.11 Complaints

### BC-8.11.1

Conventional bank licensees must disclose, maintain and operate effective procedures for handling complaints in a reasonable and timely manner:

- (a) Informing customers in writing of any out of court complaint and redress mechanism and methods for having access to it;
- (b) Paying compensation or other forms of redress to retail customers where the conventional bank licensee decides this is appropriate; and
- (c) Regularly verifying if complaints are effectively processed.

### BC-8.11.2

On receiving complaints from customers (either orally or in writing), conventional bank licensees must:

- (a) Acknowledge complaints promptly, and provide customers with an explanation about how the complaint will be handled and any actions required of the customer;
- (b) Consider and handle complaints fairly and promptly, keeping customers informed of progress; and
- (c) Provide final responses to customers' complaints without undue delay.

### BC-8.11.3

In their final responses to customers' complaints, conventional bank licensees must:

- (a) Accept (or partially accept) the complaint and where appropriate offer compensation or other forms of redress; or
- (b) Reject (or partially reject) the complaint, informing customers with a full explanation of the licensee's position.

### *Records*

### BC-8.11.4

Conventional bank licensees must maintain adequate records of all complaints received, and how they were dealt with, to a level of detail sufficient to demonstrate compliance with this Section.

### BC-8.11.5

In recording complaints activity, licensees should consider the types of data and reports that will enable them to demonstrate compliance with the above Rules for handling complaints, together with the overarching principles requiring fair dealings with customers. More specific Rules and standards for complaints records will be developed over time by the CBB.



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## BC-8.12 Conflicts of Interest

**BC-8.12.1** Conventional bank licensees must undertake all reasonable steps to identify conflicts of interest between themselves (or any person directly or indirectly linked to them by control) and their customers, which may arise in the course of providing a regulated banking service.

**BC-8.12.2** Where conflicts arise, conventional bank licensees must:

- (a) Disclose any material interest or conflict of interest to the customer in writing (which may include a disclosure in the conventional bank licensee's terms of business) either generally or in relation to a specific transaction, and take reasonable steps to ensure that the customer does not object;
- (b) Establish information barriers between activities such as proprietary trading, portfolio management and corporate finance business; and
- (c) Produce a written policy of independence, which requires an employee to disregard any conflict of interest or material interest when advising a customer or exercising discretion.

**BC-8.12.3** If a conventional bank licensee determines that it is unable to manage a conflict of interest or material interest using one of the methods described in Rule BC-8.12.2 it must decline to act for the customer.



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## BC-8.12 Conflicts of Interest (continued)

### *Personal Account Transactions*

#### BC-8.12.4

Conventional bank licensees must establish and maintain adequate policies and procedures, to ensure that:

- (a) Employees involved with advising and arranging do not undertake a personal account transaction unless:
  - (i) The conventional bank licensee has, in a written notice, drawn to the attention of the employee the conditions upon which the employee may undertake personal account transactions and that the contents of such a notice are made a term of his contract of employment or services;
  - (ii) The conventional bank licensee has given its written permission to that employee for that transaction or to transactions generally in financial instruments of that kind; and
  - (iii) The transaction will not conflict with the conventional bank licensee's duties to its customers;
- (b) It receives prompt notification or is otherwise aware of each employee's personal account transactions; and
- (c) If an employee's personal account transactions are conducted with the conventional bank licensee, each employee's account must be clearly identified and distinguishable from other customers' accounts.

#### BC-8.12.5

The written notice in sub-Paragraph BC-8.12.4 (a)(i) must make it explicit that, if an employee is prohibited from undertaking a personal account transaction, he must not, except in the proper course of his employment:

- (a) Procure another person to enter into such a transaction; or
- (b) Communicate any information or opinion to another person if he knows, or ought to know, that the person will as a result, enter into such a transaction or procure some other person to do so.

#### BC-8.12.6

Where a conventional bank licensee has taken reasonable steps to determine that an employee will not be involved to any material extent in, or have access to information about, the conventional bank licensee's investment business, then the conditions or restrictions on personal account transactions, in Rule BC-8.12.4, need not be applied to that employee.





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## BC-8.12 Conflicts of Interest (Continued)

### BC-8.12.7

Conventional bank licensees must establish and maintain procedures and controls so as to ensure that an investment analyst does not undertake a personal account transaction in a financial instrument if the investment analyst is preparing investment research:

- (a) On that investment or its issuer; or
  - (b) On a related investment, or its issuer;
- until the investment research is published or made available to the conventional bank licensee's customers.

#### *Investment Research*

### BC-8.12.8

Where a conventional bank licensee issues investment research, its conflict of interest policy must specify the types of investment research issued by it. A conventional bank licensee that prepares and publishes investment research must have adequate procedures and controls to ensure:

- (a) The effective supervision of investment analysts by following at the very least the items listed in Paragraph BC-8.13.11;
- (b) That any actual or potential conflicts of interest are managed in accordance with Rule BC-8.12.1; and
- (c) That the investment research issued to customers is not biased.

### BC-8.12.9

Conventional bank licensees that publish investment research must take reasonable steps to ensure that the investment research:

- (a) Identifies the types of customers for which it is principally intended;
- (b) Distinguishes fact from opinion or estimates, and includes references to sources of data used;
- (c) Specifies the date when it was first published;
- (d) Specifies the period the ratings or recommendations are intended to cover;
- (e) Contains a clear and unambiguous explanation of the rating or recommendation system used;
- (f) Includes a price chart or line graph depicting the performance of the financial instrument for the period that the conventional bank licensee has assigned a rating or recommendation for that financial instrument, which must also show the dates on which the ratings were revised; and



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## BC-8.12 Conflicts of Interest (continued)

- (g) Includes a distribution of the different ratings or recommendations, in percentage terms:
- (i) For all financial instruments in respect of which the conventional bank licensee publishes investment research; and
  - (ii) For financial instruments, if any, where the conventional bank licensee has undertaken corporate finance business with or for the issuer over the past 12 months.

### BC-8.12.10

A conventional bank licensee must take reasonable steps to ensure that when it publishes investment research, disclosure is made of the following matters:

- (a) Any financial interest or material interest that the investment analyst or a close relative has, which relates to the financial instrument;
- (b) Any shareholding by the conventional bank licensee or its associate of 1% or more of the total issued share capital of the issuer;
- (c) Whether the conventional bank licensee or its associate acts as corporate broker for the issuer;
- (d) Any material shareholding by the issuer in the conventional bank licensee;
- (e) Any corporate finance business undertaken by the conventional bank licensee with or for the issuer over the past 12 months, and any future relevant corporate finance business initiatives; and
- (f) Whether the conventional bank licensee is a market maker in the financial instrument.

### BC-8.12.11

If a conventional bank licensee acts as a manager or co-manager of an initial public offering or a secondary offering it must take reasonable steps to ensure that it does not publish investment research relating to the financial instrument during the period beginning on the day of publication of the listing particulars or a prospectus relating to the offering of that financial instrument and ending on the 30<sup>th</sup> calendar day after the day on which the financial instrument is admitted to trading.



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## BC-8.12 Conflicts of Interest (continued)

**BC-8.12.12** A conventional bank licensee and its associates must not knowingly execute an own account transaction in a financial instrument, which is the subject of investment research, prepared either by the conventional bank licensee or its associate, until the customers for whom the investment research was principally intended have had a reasonable opportunity to act upon it.

**BC-8.12.13** The restriction in Rule BC-8.12.11 does not apply if:

- The conventional bank licensee or its associate is a market maker in the relevant financial instrument;
- The conventional bank licensee or its associate executes an unsolicited transaction for a customer; or
- It is not expected to materially affect the price of the financial instrument.

### *Inducements*

**BC-8.12.14** Conventional bank licensees must have systems and controls, policies and procedures to ensure that neither they, nor any of their employees, offer, give, solicit or accept any inducement which is likely to conflict significantly with any duty that they owe to their customers.

**BC-8.12.15** A conventional bank licensee may only accept goods and services under a soft dollar agreement if:

- The goods and services do not constitute an inducement;
- The goods and services are reasonably expected to assist in the provision of regulated investment activities to the conventional bank licensee's customers;
- The agreement is a written agreement for the supply of goods or services described in Rule BC-8.12.14, and these goods and services do not take the form of, or include, cash or any other direct financial benefit; and
- The conventional bank licensee makes adequate disclosures regarding the use of soft dollar agreements.

BC-8.12.16 For the purpose of Sub-Paragraph BC-8.12.15(d), Paragraph BC-8.13.12 sets out the minimum disclosure requirements.

**BC-8.12.17** A soft dollar agreement is an agreement in any form under which a conventional bank licensee receives goods or services in return for investment business put through or in the way of another person.



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## BC-8.12 Conflicts of Interest (continued)

### *Inducements (continued)*

**BC-8.12.18** Before a conventional bank licensee enters into a transaction for a customer, either directly or indirectly, with or through the agency of another person, under a soft dollar agreement which the conventional bank licensee has, or knows that another member of its group has, with that other person, it must disclose to its customer:

- (a) The existence of the soft dollar agreement; and
- (b) The conventional bank licensee's or its group's policy relating to soft dollar agreements.

**BC-8.12.19** If a conventional bank licensee has a soft dollar agreement under which the conventional bank licensee deals for a customer, the conventional bank licensee must provide that customer with information as set out in Paragraph BC-8.13.12.



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### BC-8.13 Appendix

BC-8.13.1 The minimum information that should be contained in promotional material for specific products includes:

- (a) The name of the conventional bank licensee communicating the promotional material;
- (b) The conventional bank licensee's Category of license;
- (c) The conventional bank licensee's address;
- (d) A description of the main characteristics of the financial instrument involved or service offered;
- (e) Suitable warning regarding the risks of the financial instrument involved and/or service offered; and
- (f) A clear statement indicating that, if a retail customer (as defined in Section BC-8.4) is in any doubt about the suitability of the agreement which is the subject of the promotion, he should consult his own financial adviser, or else the conventional bank licensee.

BC-8.13.2 The minimum information that should be contained in the terms of business includes:

- (a) The regulatory status of the conventional bank licensee;
- (b) A statement that the licensee is bound by the CBB's regulation and licensing conditions;
- (c) The licensee's name, address, e-mail and telephone number;
- (d) A statement of the products and services provided by the licensee, as permitted by the CBB;
- (e) The total price to be paid by the customer to the conventional bank licensee for its services, or, where an exact price cannot be indicated, the basis for the calculation of the price enabling the customer to verify it;
- (f) Information on any rights the parties may have to terminate the contract early or unilaterally under its terms, including any penalties imposed by the contract in such cases;
- (g) Where appropriate, the customer's investment objectives;
- (h) Where appropriate, the extent to which the conventional bank licensee will consider the customers' personal circumstances when considering suitability (as required under Section BC-8.7) and the details of such matters that will be taken into account;
- (i) Any conflict of interest disclosure as required by Section BC-8.12;
- (j) Any disclosure of soft dollar agreements under Section BC-8.12;
- (k) A statement that clearly indicates the following:
  - (i) The customer's right to obtain copies of records relating to his business with the licensee;
  - (ii) The customer's record will be kept for 5 years or as otherwise required by Bahrain Law; and
- (l) The name and job title, address and telephone number of the person in the conventional bank licensee to whom any complaint should be addressed (in writing) by the customer.



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## BC-8.13 Appendix (continued)

BC-8.13.3 The minimum information that should be contained in a notice in relation to a warrant includes:

“A warrant is a time-limited right to subscribe for shares or debentures and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile. It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time, with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.”

BC-8.13.4 The minimum information that should be contained in a notice in relation to a futures transaction includes:

“Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements.”

BC-8.13.5 The minimum information that should be contained in a notice in relation to a purchased option includes:

“Buying options: buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks associated with 'futures' and 'contingent liability investment transactions'.”

BC-8.13.6 The minimum information that should be contained in a notice in relation to a written option includes:

“Writing options: if you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.”



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### BC-8.13 Appendix (continued)

- BC-8.13.7 The minimum information that should be included in a transaction confirmation includes:
- The conventional bank licensee's name and address;
  - Whether the conventional bank licensee executed the transaction as principal or agent;
  - The customer's name, account number or other identifier;
  - Where relevant, a description of the collective investment undertaking or fund, including the amount invested or number of units involved;
  - Whether the transaction was a sale or purchase;
  - The price or unit price at which the transaction was executed;
  - If applicable, a statement that the transaction was executed on an execution only basis;
  - The date and time of the transaction or a statement that the time of execution will be provided on request;
  - Due date and procedure for settlement of transaction and the bank account;
  - The amount the conventional bank licensee charges in connection with the transaction, including commission charges and the amount of any mark-up or mark-down, fees, taxes or duties;
  - The amount or basis of any charges shared with another person or statement that this will be made available on request;
  - For collective investment undertakings, a statement that the price at which the transaction has been executed is on a historic price or forward price basis, as the case may be;
  - The regulated market on which the transaction was carried out or the fact that the transaction was undertaken outside a regulated market; and
  - Whether the retail customer's counterparty was the conventional bank licensee itself or any other person in the conventional bank group.
- BC-8.13.8 The minimum information that should be included in a periodic statement includes:
- The number, description and value of each financial instrument;
  - The amount of cash held;
  - The total value of the portfolio; and
  - A statement as to the basis on which the value of each financial instrument was calculated.
- BC-8.13.9 The minimum information that should be included in a periodic statement, where the relationship includes portfolio management, includes:
- A statement of which financial instruments, if any, were at the closing date loaned to any third party and which financial instruments, if any, were at that date charged to secure borrowings made on behalf of the portfolio;
  - The aggregate of any interest payments made and income received during the account period in respect of loans or borrowings made during that period;
  - A management report on the strategy implemented (provided at least yearly);
  - Total amount of fees and charges incurred during the period and an indication of their nature;





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- (e) Information on any remuneration received from a third party and details of calculation basis;
- (f) Total amount of dividends, interest and other payments received during the period in relation to the customers' portfolio;
- (g) Details of each transaction which have been entered into for the portfolio during the period;
- (h) The aggregate of money and details of all financial instruments transferred into and out of the portfolio during the period;
- (i) The aggregate of any interest payments, including the dates of their application and dividends or other benefits received by the conventional bank licensee from the portfolio for its own account during that period;
- (j) A statement of the aggregate charges of the conventional bank licensee and its associates; and
- (k) A statement of the amount of any remuneration received by the conventional bank licensee or its associates or both from a third party.

BC-8.13.10 The minimum information that should be included in periodic statements, where the relationship includes contingent liability investment transactions, includes:

- (a) The aggregate of money transferred into and out of the portfolio during the valuation period;
- (b) In relation to each open position in the account at the end of the account period, the unrealised profit or loss to the customer (before deducting or adding any commission which would be payable on closing out);
- (c) In relation to each transaction executed during the account period to close out a customer's position, the resulting profit or loss to the customer after deducting or adding any commission;
- (d) The aggregate of each of the following in, or relating to, the customer's portfolio at the close of business on the valuation date:
  - (i) Cash;
  - (ii) Collateral value;
  - (iii) Management fees; and
  - (iv) Commissions;
- (a) Option account valuations in respect of each open option contained in the account on the valuation date stating:
  - (i) The share, or future or other financial instrument involved;
  - (ii) The trade price and date for the opening transaction, unless the valuation statement follows the statement for the period in which the option was opened;
  - (iii) The market price of the contract; and
  - (iv) The exercise price of the contract.





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### BC-8.13 Appendix (continued)

BC-8.13.11 The minimum requirements that should be met where the conventional bank licensee prepares and publishes investment research include:

- (a) Analysts must not trade in securities or related derivatives ahead of publishing research on the issuer of these securities;
- (b) Analysts must not trade in securities or related derivatives of any issuer that they review in a manner contrary to their existing recommendations except in special circumstances subject to pre-approval by compliance or legal personnel;
- (c) Analysts must not accept inducements by issuers or others with a material interest in the subject matter of investment research; and
- (d) Conventional banks must not promise issuers favorable research coverage, specific ratings or specific target prices in return for a future or continued business relationship, service or investment.

BC-8.13.12 The minimum requirements that should be met where the conventional bank licensee has a soft dollar agreement under which it deals with customers include:

- (a) The percentage paid under soft dollar agreements of the total commission paid by or at the direction of:
  - (i) The conventional bank licensee; and
  - (ii) Any other member of the conventional bank licensee's group which is a party to those agreements;
- (b) The value, on a cost price basis, of the goods and services received by the conventional bank licensee under soft dollar agreements, expressed as a percentage of the total commission paid by or at the direction of:
  - (i) The conventional bank licensee; or
  - Other members of the conventional bank licensee's group;
- (c) A summary of the nature of the goods and services received by the conventional bank licensee under the soft dollar agreements; and
- (d) The total commission paid from the portfolio of that customer.