



المدير التنفيذي للرقابة المصرفية
Executive Director of Banking Supervision

مملكة البحرين
Kingdom of Bahrain

مؤسسة نقد البحرين
BAHRAIN MONETARY AGENCY

EDBS/KH/0107/2006

6th July 2006

The Compliance Officer
All Conventional Bank Licensees (FCBs, OBU's & IBs)
Manama
Kingdom of Bahrain

Dear Sir,

BMA Rulebook: Volume 1 – July 2006 Quarterly Update

The latest quarterly update to Volume 1 has now been incorporated in the website version of the Rulebook.¹

This cover letter highlights the main policy changes introduced this quarter.

July 2006 Changes

The only change this quarter is the introduction of the BMA's new licensing framework for banks. Final drafts of the new regulations were previously communicated to BMA bank licensees on 29th May 2006, together with commentary explaining the changes to the various Modules affected.

The regulations now incorporated in Volume 1 are very similar to the final drafts previously issued, but have been amended in some places to incorporate comments received from banks in June: most of these comments were accepted.

Thus, various additional guidance has been incorporated to clarify where certain types of business fit under the definitions of regulated banking services (see LR-1.3.18, LR-1.3.23, and LR-1.3.28). The restriction on banks undertaking commercial activities has been clarified (LR-1.1.12 and LR-1.1.13); and issues regarding multiple licenses and the activities of overseas banks in Bahrain also addressed (LR-1.2.3 and LR-1.2.7).

¹ Volume 1 can be accessed, as usual, from www.bma.gov.bh
(Home > Regulation & Supervision > Rulebook > Volume 1.

The rules regarding the operation of the BD 7 million / USD 250,000 thresholds have been further refined (LR-1.2.14, LR-1.2.15, LR-1.2.18, LR-1.2.19 and LR-1.2.20). The liquid assets reference has reverted to guidance (LR-2.5.9); the requirement regarding e-mail records has been refined (GR-1.1.3); and, finally, the 'lost' transition rule with regards to Board composition and committees has been reinstated (HC-A.3.4)

The new licensing framework has immediate effect. However, for existing bank licensees, a transition period until 30 September 2006 will be allowed, during which time banks are required to submit details of their activities, and agree their license status with their supervisors. Existing bank licensees will be formally reclassified using the new retail / wholesale bank license sub-categories on 1 October 2006 (at which point wholesale banks will be allowed to make use of their ability to undertake wholesale 'on-shore' business).

Users should note that in order to save re-issuing the whole of Volume 1, references to Full Commercial Bank, Investment Bank Licensee and Offshore Banking Unit have not been updated, where these occur in Modules other than those reissued in this update. These references will be changed over time, as and when these other Modules are updated for other purposes. In the interim, references to Full Commercial Bank should be taken as referring to Retail Bank, and references to Offshore Banking Unit and Investment Bank Licensee should be taken as referring to Wholesale Bank, unless otherwise indicated by the context.

Hard Copy Users

Recipients who wish to update their hard copy folders should access the BMA website and print off the relevant pages from the updated PDF versions of Volume 1, for insertion into their folder. The table attached to this letter lists which pages to print off.

By way of a reminder, the contents pages for each Module contained in Part A of Volume 1 is given a fresh date each quarter, at the bottom right hand corner of the page: these contents pages therefore now show their current issue date, i.e. July 2006.

These contents pages also list the current issue date for every Section of a Module. Where a Section has been modified as part of this update, then its current issue date will also have been changed to July 2006. The contents pages therefore act as a summary checklist for hard-copy Rulebook users.

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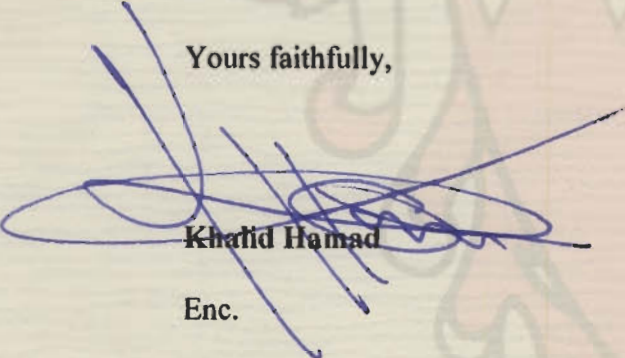
Further information

Should you have any queries regarding these updates, you may contact the BMA Rulebook team (at rulebook@bma.gov.bh), or else please speak to your normal supervisory contact.

Future updates

The BMA is conscious of the volume of changes to its bank regulations in particular, in recent quarters, and the regulatory burden this places on banks. Going forward, it intends to limit these changes as much as is feasible. The BMA will aim to ensure several successive quarters with little or no substantive changes to the regulations, to allow for a period of consolidation.

Yours faithfully,


Khalid Hamad

Enc.

BMA Rulebook (Volume One) – July 2006 Quarterly Update

Summary of Changes and Printing Instructions for Hard Copy Users

PART A FOLDER		
Module Code	Module Title	Summary of Changes and Printing Instructions
Volume 1 - Part A, Table of Contents		Updated, to reflect (i) renaming of Module LR as “Licensing Requirements”; (ii) renaming of Module AU as “Auditors and Accounting Standards”; and (iii) introduction of a new Module GR (General Requirements). Further details on these are given below. Print off the contents page.
Contents Page for each Module		Updated, to show their current issue date in the bottom right hand corner (i.e. <u>July 2006</u>); the current issue date of any Section that has been modified in this update will also have been changed to <u>July 2006</u> . Print off each Module contents page.
LR	Licensing Requirements	Whole Module updated; and replaces all of existing Module LR. Name changed from “Licensing and Authorisation Requirements” to “Licensing Requirements”. Structure and drafting changed to make consistent with equivalent Modules in other Rulebook Volumes. New license categories and definitions of regulated banking services introduced; licensing conditions re-defined although very similar in substance to previous conditions. New thresholds for wholesale banks dealing with Bahrain residents. Material on financial trusts taken out, following parliamentary approval of trust law (implementing regulations for the trust law will shortly be issued, on a stand-alone basis, and for later inclusion in Volume 5 of the BMA Rulebook). Material on authorisation for precious metals and commodities trading deleted, on grounds that it is redundant. Record keeping requirements moved to Module GR. Print off the whole Module.
AU	Auditors and Accounting Standards	Module renamed (from ‘Audit Firms’), and re-drafted to make structure and text more consistent with equivalent modules in other Volumes of the Rulebooks. No changes to the substance of the requirements. Reporting Accountants material relocated to Module EN. Print off the whole Module.
EN	Enforcement Module	Revised Section EN-7 (see above). Print off Section EN-7.

HC	High Level Control	HC-A (Introduction) updated and replaces previous version. HC-2 revised and replaces previous version: changes aimed at ensuring consistency with other Volumes of Rulebooks, and because of read-across from new Module LR. New terminology ('Approved Persons') introduced, and requirements dealing with controllers moved out of HC-2 and into a separate chapter in Module GR. HC-4 has been deleted in order to reduce volume of regulation and avoid duplication: the requirement regarding FX dealers etc, is effectively now covered under HC-2. Print off new Chapters HC-A, HC-2 and HC-4.
GR	General Requirements	New Module. Introduced to achieve structural consistency with other Rulebook Volumes, and to provide a more logical home for certain material (e.g. record-keeping and controllers), moved as a result of changes in LR. Remaining material (on corporate/trade names, dividends etc), is new; but reflects existing statutory requirements contained in the BMA Law 1973: the new material therefore simply provides expanded guidance or requirements of a procedural nature. Print off the whole Module.
BR	BMA Reporting	BR-A.3, BR-4.1 and BR-4.2 amended, to reflect deletion of reporting requirement for precious metals and commodities (reflecting deletion of linked authorisation requirement in Module LR). BR-5.1 amended to reflect change of Compliance Unit to Compliance Directorate. Print off BR-A.3, BR-4.1, BR-4.2 and BR-5.1.
PART B FOLDER		
Reference		Summary of Changes and Printing Instructions
Volume 1 – Part B, Table of Content (Part B)		Updated to reflect: (i) deletion of Forms DR/DRG and BR/BRG (dealers/brokers in precious metals/commodities): see comments above regarding these (Modules LR and BR); (ii) Introduction of new forms for application for license, authorisation of controllers and approval of approved persons. Print off the contents page for Part B.
Glossary of Defined Terms		Whole document: new version replaces previous Glossary. Updated to reflect new bank license categories and definitions of regulated banking services. Print off the whole document.
Form 1 (Phase 1)		New license application form. Replaces existing application form. Print off the whole document.
Form 1 (Phase 2)		New license application form. Replaces existing application form. Print off the whole document.
Form 2		New application for authorisation of controller form. Print off the whole document.
Form 3		New application for Approved Person status form. Replaces previous 'Personal Questionnaire' form. Print off the whole document.
Form STR		New updated form, with revised format to ensure consistency with other Rulebook Volumes. Print off the whole document.