



BUSINESS AND MARKET CONDUCT MODULE



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-A: Introduction |

BC-A.1 Purpose

BC-A.1.1 This Module contains requirements that have to be met by Islamic bank licensees with regards to their dealings with customers. The Rules contained in this Module aim to ensure that Islamic 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 Islamic 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 Islamic bank licensees to act with due skill, care and diligence when acting on behalf of their customers. Principle 7 (Client Interests) requires Islamic 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.1.3 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 CBB's Directive on business conduct by Islamic bank licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The directive in this Module is applicable to all Islamic 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 **Islamic 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 Islamic 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).



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BC-A.3 **Module History**

BC-A.3.1 This Module was first issued on 1st January 2005 by the BMA as part of the Islamic 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 2 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 4.6 | 01/10/05 | Streamlined requirements for new products |
| BC 8 | 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. |

Effective date and evolution of the Module

BC-A.3.4 Prior to the Rulebook, the Central Bank had issued various circulars covering different aspects of Business and Market Conduct. These circulars have now been consolidated into this Module. 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.C7/90/34 | 31 Jan 1990 | BC-4.2 | Dinar Certificates of Deposits |
| EDBO/51/02 | 2 Apr 2002 | BC-4.2 | Charges to Customers |
| BC/5/00 | 8 Mar 2000 | BC-4.3 | Accounts held for Clubs and Societies |
| BSD(111)/94/157 | 24 Sep 1994 | BC-4.4 | Fees on Current Accounts |
| BC/2/01 | 3 Mar 2001 | BC-4.5 | Brokerage Fees in Bahrain |
| ODG/145/92 | 18 Aug 1992 | BC-4.6 | New products in the Retail Banking Field |
| EDBO/46/03 | 8 Apr 2003 | BC-4.7 | Inheritance – Financial Procedures |



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BC-A.3 Module History (continued)

| Circular Ref. | Date of Issue | Module Ref. | Circular Subject |
|---------------|----------------|-------------|---|
| 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 |
| EDBC/105/96 | 26 June 1996 | BC-7 | Mudaraba Contracts – Minimum Terms and Conditions |
| BS/11/2004 | 10 August 2004 | BC-4 | Bank Charges on Savings Accounts |



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-2: Promotion of financial products and services |

BC-1.1 Promotion of financial products and services offered in/from Bahrain by mean 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 means of incentives etc. (herein referred to as ‘promotional schemes’).

BC-1.1.2 The Central Bank has no objection to the use of promotional schemes in general and, unless it otherwise specifically directs in any particular case, the Central Bank does not expect to be actively consulted/have its approval sought about the idea and/or substance of any promotional schemes. The Central Bank 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 Central Bank 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 Central Bank at any time regarding any matters referred to in the explanatory note set out in this Section.



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General requirements

BC-1.1.4

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

BC-1.1.5

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-1.1.6

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, retail Islamic bank licensees 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 an institution or a banking/financial product.

BC-1.1.7

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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BC-1.1.8 Customers to whom promotional schemes are directed should enjoy equal opportunity in terms of access to, and treatment within, such schemes.

BC-1.1.9 No costs (including funding costs), charges or levies associated with promotional schemes should be concealed from prospective customers.

BC-1.1.10 Full and complete records should be maintained for promotional schemes, particularly where raffles/lotteries etc. are concerned.

BC-1.1.11 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-1.1.12 An appropriate system should also exist for informing participants of the results of a raffle/lottery without delay. Institutions should note that raffles/lotteries etc. may be subject to rules and requirements (including prior authorisation/approval) laid down by the Ministry of Commerce.

BC-1.1.13 Retail Islamic bank licensees 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-1.1.14 Finally, 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-2.1 Introduction

BC-2.1.1

The Code of Conduct which is prepared in cooperation with the Bankers' Society of Bahrain and the foreign exchange brokers, provide 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.

BC-2.1.3

The code is shown in full, although many Paragraphs are not strictly relevant for Islamic banks. Treasury staff should refer to the relevant Paragraphs as appropriate.



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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.
- (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.

- (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.



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- (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 the broker is:
- (i) informed otherwise at the time of acceptance, or
 - (ii) a time limit was placed (for example, 'Firm for one minute only').

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 offeror – 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.



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- (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.
- (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.



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- (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 deposit for personal account is permitted. Any such dealing must be strictly controlled.
- (o) Care should be taken over the positioning of 2-way loudspeakers in dealing rooms.
- (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 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 banks 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.



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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.



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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 **Central Bank** 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.



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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.*
- (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 adapt the 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.



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| CHAPTER | BC-2: Code of conduct for bank dealers and foreign exchange and money brokers in the foreign currency and deposit markets |

BC-2.12.2

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.
- (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.



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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).
- (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 are 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.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-3: Client confidentiality |

BC-3.1 Disclosure of information about individual accounts

BC-3.1.1 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 an authorised official from the **CBB** or by an order from the Courts; or
- (b) the release of such information is approved by the customer concerned.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Customer account services and charges |

BC-4.1 Minimum balance and charges on accounts

BC-4.1.1 Banks may impose no more than a monthly charge of BD 1 when the monthly weighted average balance for saving investment 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 saving investment 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.



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BC-4.2 Disclosure of charges

BC-4.2.1 In order to improve customer awareness and enhance transparency of bank charging structures, full commercial banks should display, by notice in their banking halls (both head offices and branches), a list of current charges.

BC-4.2.2 Banks should also ensure that each customer is in receipt of its 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.



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BC-4.3 Accounts held for clubs and societies in Bahrain

BC-4.3.1 All clubs and societies registered with the General Organisation for Youth and Sports (GOYS), are permitted under GOYS rule to only have one account with **retail bank licensees** in Bahrain.

BC-4.3.2 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-4.3.3 For accounts already held with the **retail bank licensees** for clubs and societies registered with GOYS (i.e. before the application of the regulation 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.



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BC-4.4 Current accounts

BC-4.4.1 **Retail Bank licensees** levying fees on their low-balance customer current accounts, are required by the **Central Bank** to apply such fees to average balances when these fall below a prescribed level during a specified period.

BC-4.4.2 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.



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| CHAPTER | BC-4: Customer account services and charges |

BC-4.5 Brokerage fee

BC-4.5.1 The purpose of the contents of this Section is to set out the new scale of brokerage fees effective for all banks in Bahrain.

BC-4.5.2 The new scale of fees is the result of discussion and consultation between The Bankers' Society and the Bahrain Money Brokers.

BC-4.5.3 For the list of brokerage fee, see [Appendix BC-6](#).



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Customer account services and charges |

BC-4.6 Notification to the **Central Bank** on introduction of new or expanded customer products and facilities

BC-4.6.1 The content of this Section is applicable only to full commercial banks licensed by the Central Bank.

BC-4.6.2 All institutions referred to under **Paragraph BC-4.6.1** are required to notify the **Central Bank** before the introduction of any new or expanded customer products and facilities. The **Central Bank** will respond to the concerned bank within one week of receipt of the notification if it has any observations on the new product.

BC-4.6.3 Further, institutions should also advise the Central Bank, on a six-monthly basis, on the status of new or expanded products and facilities. The advise 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 **Central Bank** on any variances which are introduced to the terms and conditions applying to these products and facilities.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Customer account services and charges |

BC-4.7 Procedures for inheritance of financial assets

BC-4.7.1 The content of this Section is applicable to all full commercial banks licensed by the **Central Bank** in the Kingdom of Bahrain.

BC_4.7.2 The Central Bank requires all commercial banks to follow the undermentioned procedures regarding the distribution of the financial assets of a deceased customer.

- (d) 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’).
- (e) 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.
- (f) Where minors are inheritors, the Ministry of Justice documentation must specifically refer to their inheritance and the instruction followed absolutely.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: 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 regulations 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 bank** 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 Regulation in this Chapter.

Procedures to be followed

BC-5.1.2

On each occasion that a retail bank becomes aware of a dishonoured cheque of one of its customers, that **retail 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** should provide to the **Central Bank** 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 banks** will be responsible for ensuring the accuracy of all details on their respective lists.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-12 Dishonoured cheques |

BC-5.1.4

Using the lists referred to in **Paragraph BC-5.1.3** above, the **Central Bank** 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** 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 **retail bank(s)** on whose list(s) the customer's name has been included, and other relevant details for **retail 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** 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 **Central Bank** will circulate a draft copy of the Control List to **retail banks**. **Retail banks** will be requested to check the accuracy of the Control List by reference to the information they have sent to the **Central Bank** in accordance with **Paragraph BC-5.1.3** above, and to notify the **Central Bank** 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 **the retail banks** by the **Central Bank** on the second working day after it receives all responses from the **retail banks**. **Retail banks** 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 **retail bank** becoming aware of a dishonoured cheque of one or more of its customers on the Control List during this month should notify the **Central Bank** of this fact, using the relevant Section in **Appendix BC-1**, on the first working day of each calendar month.



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BC-5.1.6

If the **Central Bank** 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 **Central Bank** 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 **Central Bank** 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 **Central Bank** in this regard, the **Central Bank** will cease its monitoring thereof.



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BC-5.1.7

If the **Central Bank** 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 **Central Bank** will circulate a draft list to **retail banks**. **Retail banks** will be requested to check the accuracy of this list by reference to the information they have sent to the **Central Bank** in accordance with **Paragraph BC-5.1.5** above, and to notify the **Central Bank** 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 banks** by the **Central Bank** on the second working day after it receives all responses from **retail banks**, and will direct the **retail 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 **retail bank(s)**. Furthermore, those **retail bank(s)** will be required not to 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 **retail 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 banks** 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 **Central Bank** will notify **retail banks** 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 **retail banks** may reinstate/offer current account facilities at their discretion.

BC-5.1.9

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



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BC-5.1.10 The Regulation in this Chapter may be amended, in whole or in part, from time to time by the Central Bank. In addition, the Central Bank may, at its discretion and as it so deems appropriate, issue specific directions to all or any retail banks regarding abusers of cheques or any particular abuser of cheques.



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BC-5.2 General guidance on administration of dishonoured cheques

BC-5.2.1 **Retail banks** which 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 **Central Bank** of their intention and the arrangements governing the issue of such cards.

BC-5.2.2 **Retail banks**, 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 banks** 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 **Central Bank** 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.



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BC-5.3 Penalty charges on dishonoured cheques

BC-5.3.1 The **Central Bank** will impose penalty charges of BD 5 (five Bahrain Dinars) 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 banks** will be entitled to charge customers no more than BD 10 (ten Bahrain Dinars) in respect of each dishonoured cheque.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Automated Teller Machine (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 Central Bank.

General criteria

BC-6.1.3 Subject to the prior written approval of the Central Bank, off-site ATMs may be owned individually or jointly by licensed **retail bank licensees** which are members of the BENEFIT Switch. Each relevant owning **retail bank** must already have linked its bank's 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 Central Bank, off-site ATMs may, at each relevant owning **retail bank**'s discretion, be fully functioning or operate as cash dispensers only. In addition, off-site ATMs may, at each relevant owning **retail bank**'s discretion (and subject to the prior written approval of the Central Bank), be 'walk-up' or 'drive-in' machines.

BC-6.1.5 Owning **retail banks** 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.).



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BC-6.1.6

Retail banks 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 Central Bank, 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 **Central Bank** 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 Central Bank).

BC-6.1.8

Each application will be assessed on its individual merits, and at the Central Bank's discretion, taking into account factors which the **Central Bank** 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 **Central Bank** under **Paragraph BC-6.1.6**, the **Central Bank** may require further information/clarification to be provided to it before it takes a decision regarding the application. The Central Bank's decision in this regard will be notified to each relevant applicant **retail bank** in writing and will be final.

BC-6.1.10

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



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-13: Automated Teller Machine (ATM) |

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 full commercial banks in the Kingdom of Bahrain for customer withdrawals and other ATM services 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 **Central Bank** requires that the charges on such customer withdrawals and other ATM services should not exceed BD 1 (one Bahrain Dinar) per transaction.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Mudaraba contracts |

BC-7.1 Minimum terms and conditions

BC-7.1.1 As part of its on-going supervision of Islamic banks, the Central Bank has set out in Appendix BC-7 details of the type of terms and conditions which it believes Islamic banks should include, as a minimum, in such Mudaraba contracts.

BC-7.1.2 All such Mudaraba contracts entered into by a bank (whether new or renewed contracts) should meet the standards referred to under Paragraph BC-7.1.1.

BC-7.1.3 Banks must have a policy statement as to the policies and procedures in place to safeguard the interest of the PSIA holders. The statement must, as a minimum, cover the following areas:

- (a) Basis for allocation of profit or loss to the PSIA;
- (b) Policy for making provisions and reserves against assets and equity for PSIA (refer to FAS 11, issued by AAOIFI, for recognition and measurement of provisions and reserves) and to whom these provisions and reserves revert to in case of write-back or recovery;
- (c) Policy on the priority for investment of own funds and those of unrestricted investment account holders; and
- (d) Basis for allocating expenses to the PSIA.

Banks must agree their Policy Statements with the Central Bank.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-4: Margin Trading System |

BC-8.1 Introduction

BC-8.1.1 This Chapter applies to all full commercial banks in Bahrain.

BC-8.1.2 Investors purchasing securities (as defined from time to time by the Bahrain Stock Exchange ('BSE') listed on the BSE 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 BSE Law, any rules and regulations issued pursuant to such Laws and this Module. The System applies to equities in companies listed on the BSE. 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-8.1.3 The main objective of introducing the System is to enhance the overall activity on the BSE, allowing investors to leverage their investments, in a controlled manner.

General criteria

BC-8.1.4 Only Full Commercial 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 BSE of the identity of participating banks. The CBB's approval may be withdrawn at its discretion.

BC-8.1.5 BSE Brokers will not be permitted to act as lenders for the System.



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BC-8.2 Limits and Trading Rules

BC-8.2.1

An investor may, through his relationship with any one individual participating bank under the System, invest a maximum of BD200,000 in securities (i.e. BD200,000 per investor/per individual participating bank, made up of BD100,000 by way of the investor's own initial margin and BD100,000 by way of financing from the relevant participating bank to that investor).

BC-8.2.2

An investor may, through approaching more than one bank under the System, invest a maximum of BD500,000 in securities (i.e. BD500,000 per investor/from all participating banks, made up of BD250,000 by way of the investor's own initial margin with all participating banks and BD250,000 by way of total financing from all participating banks to that investor).

BC-8.2.3

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-8.2.4

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-8.2.5

In relation to the aggregate limit under Paragraph BC-8.2.2 above, the **Central Bank** will require participating banks to inform the Credit Risk Bureau 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.

Brokers

BC-8.2.6

Only those brokers approved by the BSE will be permitted to act as brokers for the System. Generally, brokers will only be approved if they (a) hold a 'Class A' license from the BSE, and (b) meet the requirements set for the System from time to time by the BSE and the **CBB**.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-16: Margin Trading System |

Documentation

BC-8.2.7

Only standard-form documents (application forms and agreements) will be used for the System. Standard-form agreements, drafted and approved in advance by the BSE, 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 broker (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 broker 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.



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| CHAPTER | BC-16: Margin Trading System |

Owner of the Securities bought using the System

BC-8.2.8 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-8.2.9 Under Paragraph BC-8.2.8 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-8.2.10 For equities listed on the BSE, 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 BSE shall coordinate in making any change to the margin percentages set for the System.

Margin Call Top-up

BC-8.2.11 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.



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| MODULE | BC: Business and Market Conduct |
| CHAPTER | BC-16: Margin Trading System |

Margin Charges

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| BC-8.2.12 | The participating bank shall 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, profit shall be paid on the excess at a rate to be determined by the participating bank. |
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