FINANCIAL CRIME MODULE

MODULE	FC (Financial Crime)
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FC-A.1 Purpose

FC-A.1.1 This Module applies, to all Islamic bank licensees, a comprehensive framework of Rules and Guidance aimed at combating money laundering and terrorist financing. In so doing, it helps implement the 40 Recommendations on money laundering and 9 Special Recommendations on terrorist financing, issued by the Financial Action Task Force (FATF), and the requirements of the Basel Committee 'Customer Due Diligence for Banks' paper, that are relevant to Islamic bank licensees. (Further information on these can be found in Chapter FC-10.)

FC-A.1.2 The Module requires Islamic bank licensees to have effective anti-money laundering ('AML') policies and procedures, in addition to measures for combating the financing of terrorism ('CFT'). The Module contains detailed requirements relating to customer due diligence, reporting and the role and duties of the Money Laundering Reporting Officer (MLRO). Furthermore, examples of suspicious activity are provided, to assist Islamic bank licensees monitor transactions and fulfill their reporting obligations under Bahrain law.

Legal Basis

FC-A.1.3 **This Module contains the Central Bank of Bahrain ('CBB') Directive regarding the combating of financial crime, 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 Islamic bank licensees.**

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

FC-A.2 Module History

Changes to the Module

FC-A.2.1 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.

FC-A.2.2 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.

FC-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
FC-1.11.1	01/01/06	New text for syndicated business.
FC-1.1.3, FC-1.2.8, FC-1.2.11, FC-3.1.4	01/01/06	Correction of minor typos.
FC-A.1	10/2007	Updated to reflect new CBB Law: new Rule FC-A.1.3 introduced Categorising this Module as a Directive.
FC-5.3.1	10/2007	Updated new e-mail address for the Compliance Directorate.
FC-7.1.1	10/2007	Guidance on customer instructions moved from OM-7.1
FC-1.11.1 & FC-4.3.5	04/2008	Minor guidance enhancements

Effective Date

FC-A.2.4 The contents of this Module are effective from July 2005 or from the date of changes shown in FC-.2.3.

FC-B.1 License Categories

FC-B.1.1 **This Module applies to all Islamic bank licensees, including branches of banks incorporated outside of Bahrain, and Bahrain-incorporated subsidiaries of overseas groups.**

FC-B.1.2 The requirements of this Module are in addition to and supplement the requirements contained in Decree Law No. (4) of 2001 with respect to the prevention and prohibition of the laundering of money; this Law was subsequently updated, with the issuance of Decree Law No. 54 of 2006 with respect to amending certain provisions of Decree No. 4 of 2001 (collectively, 'the AML Law'). The AML Law imposes obligations generally in relation to the prevention of money laundering and the combating of the financing of terrorism, to all persons resident in Bahrain. All Islamic bank licensees are therefore under the statutory obligations of that Law, in addition to the more specific requirements contained in this Module. Nothing in this Module is intended to restrict the application of the AML Law (a copy of which is contained in Part B of Volume 2 (Islamic banks), under 'Supplementary Information'). Also included in Part B is a copy of Decree Law No. 58 of 2006 with respect to the protection of society from terrorism activities ('the anti-terrorism law').

FC-B.2 Overseas Subsidiaries and Branches

FC-B.2.1 **Islamic bank licensees must apply the requirements in this Module to all their branches and subsidiaries operating both in the Kingdom of Bahrain and in foreign jurisdictions. Where local standards differ, the higher standard must be followed. Islamic bank licensees must pay particular attention to procedures in branches or subsidiaries in countries that do not or insufficiently apply the FATF Recommendations and Special Recommendations.**

FC-B.2.2 **Where another jurisdiction's laws or regulations prevent an Islamic bank licensee (or any of its foreign branches or subsidiaries) from applying the same standards contained in this Module or higher, the licensee must immediately inform the CBB in writing.**

FC-B.2.3 In such instances, the CBB will review alternatives with the Islamic bank licensee. Should the CBB and the licensee be unable to reach agreement on the satisfactory implementation of this Module in a foreign subsidiary or branch, the Islamic bank licensee may be required by CBB to cease the operations of the subsidiary or branch in the foreign jurisdiction in question.

MODULE	FC:	Financial Crime
CHAPTER	FC-1:	Customer Due Diligence

FC-1.1 General Requirements

Verification of Identity and Source of Funds

FC-1.1.1 **Islamic bank licensees must establish effective systematic internal procedures for establishing and verifying the identity of their customers and the source of their funds. Such procedures must be set out in writing and approved by the licensee's Board of Directors. They must be strictly adhered to.**

FC-1.1.2 **Islamic bank licensees must implement the customer due diligence measures outlined in Chapters 1, 2 and 3 when:**

(a) Establishing business relations with a new or existing customer;
(b) A change to the signatory or beneficiary of an existing account or business relationship is made;
(c) A significant transaction takes place;
(d) There is a material change in the way that the bank account is operated or in the manner in which the business relationship is conducted;
(e) Customer documentation standards change substantially;
(f) The Islamic bank licensee has doubts about the veracity or adequacy of previously obtained customer due diligence information;
(g) Carrying-out one-off or occasional transactions above BD 6,000, or where several smaller transactions that appear to be linked fall above this threshold; or
(h) Carrying out wire transfers irrespective of amount;
(i) There is a suspicion of money laundering or terrorist financing.

FC-1.1.3 For the purposes of this Module, 'customer' includes counterparties such as financial markets counterparties, except where financial institutions are acting as principals where simplified due diligence measures may sometimes apply. These simplified measures are set out in Section FC 1.11.

FC-1.1.4 The CBB's specific minimum standards to be followed with respect to verifying customer identity and source of funds are contained in Section FC-1.2. Enhanced requirements apply under certain high-risk situations: these requirements are contained in Sections FC-1.3 to FC-1.8 inclusive. Additional requirements apply where an Islamic bank licensee is relying on a professional intermediary to perform certain parts of the customer due diligence process: these are detailed in Section FC-1.10. Simplified customer due diligence measures may apply in defined circumstances: these are set out in Section FC-1.11.

FC-1.1 General Requirements (continued)

Verification of Third Parties

FC-1.1.5 Islamic bank licensees must obtain a signed statement from all new customers confirming whether or not the customer is acting on their own behalf or not. This undertaking must be obtained prior to conducting any transactions with the customer concerned.

FC-1.1.6 Where a customer is acting on behalf of a third party, the Islamic bank licensee must also obtain a signed statement from the third party, confirming they have given authority to the customer to act on their behalf. Where the third party is a legal person, the Islamic bank licensee must have sight of the original Board resolution (or other applicable document) authorising the customer to act on the third party's behalf, and retain a certified copy.

FC-1.1.7 Islamic bank licensees must establish and verify the identity of the customer and (where applicable) the party/parties on whose behalf the customer is acting, including the Beneficial Owner of the funds. Verification must take place in accordance with the requirements specified in this Chapter.

FC-1.1.8 Where financial services are provided to a minor or other person lacking full legal capacity, the normal identification procedures as set out in this Chapter must be followed. In the case of minors, licensees must additionally verify the identity of the parent(s) or legal guardian(s). Where a third party on behalf of a person lacking full legal capacity wishes to open an account, the licensee must establish the identity of that third party as well as the intended account holder.

FC-1.1 General Requirements (continued)

Anonymous and Nominee Accounts

FC-1.1.9 **Islamic bank licensees must not establish or keep anonymous accounts or accounts in fictitious names. Where Islamic bank licensees maintain a nominee account, which is controlled by or held for the benefit of another person, the identity of that person must be disclosed to the Islamic bank licensee and verified by it in accordance with the requirements specified in this Chapter.**

Timing of Verification

FC-1.1.10 **Islamic bank licensees must not commence a business relationship or undertake a transaction with a customer before completion of the relevant customer due diligence measures specified in Chapters 1, 2 and 3. However, verification may be completed after receipt of funds in the case of non face-to-face business, or the subsequent submission of CDD documents by the customer after initial face-to face contact, providing that no disbursement of funds takes place until after the requirements of this Chapter have been fully met.**

Incomplete Customer Due Diligence

FC-1.1.11 **Where an Islamic bank licensee is unable to comply with the requirements specified in Chapters 1, 2 and 3, it must consider whether to terminate the relationship or not proceed with the transaction, and additionally, consider whether it should file a suspicious transaction report.**

FC-1.1.12 See also Chapter FC-5, which covers the filing of suspicious transaction reports.

FC-1.2 Face-to-face Business

Natural Persons

FC-1.2.1 **If the customer is a natural person, Islamic bank licensees must obtain and record the following information (in hard copy or electronic form), before providing financial services of any kind:**

(a) Full legal name and any other names used;
(b) Full permanent address (i.e. the residential address of the customer; a post office box is insufficient);
(c) Date and place of birth;
(d) Nationality;
(e) Passport number (if the customer is a passport holder);
(f) CPR or Iqama number (for residents of Bahrain or GCC states);
(g) Telephone/fax number and email address (where applicable);
(h) Occupation or public position held (where applicable);
(i) Employer's name and address (if self-employed, the nature of the self-employment);
(j) Type of account, and nature and volume of anticipated business dealings with the Islamic bank licensee;
(k) Signature of the customer(s); and
(l) Source of funds.

FC-1.2.2 See Part B, Volume 2 (Islamic Banks), for Guidance Notes on source of funds (FC-1.2.1(1)) and requirements for residents of Bahrain (FC-1.2.1 (c) & (f)).

FC-1.2.3 **Islamic bank licensees must verify the information in Paragraph FC-1.2.1 (a) to (f), by the following methods below; at least one of the copies of the identification documents mentioned in (a) and (b) below must include a clear photograph of the customer:**

(a) Confirmation of the date of birth and legal name, by taking a copy of a current valid official original identification document (e.g. birth certificate, passport, CPR or Iqama);
(b) Confirmation of the permanent residential address by taking a copy of a recent utility bill, bank statement or similar statement from another licensee or financial institution, or some form of official correspondence or official identification card, such as CPR (see Part B Guidance Notes) from a public or government authority, or a tenancy agreement or record of home visit by an official of the Islamic bank licensee; and
(c) Where appropriate, direct contact with the customer by phone, letter or email to confirm relevant information, such as residential address information.

FC-1.2 Face-to-face Business (continued)

FC-1.2.4 Any document copied for the purpose of identification verification must be an original. An authorised official of the licensee must certify the copy, by writing on it the words 'original sighted', together with the date and his signature. Equivalent measures must be taken for electronic copies.

FC-1.2.5 Identity documents which are not obtained by an authorised official of the licensee in original form (e.g. due to a customer sending a copy by post following an initial meeting) must instead be certified (as per FC-1.2.4) by one of the following from a GCC or FATF member state:

(a) A lawyer;
(b) A notary;
(c) A chartered/certified accountant;
(d) An official of a government ministry;
(e) An official of an embassy or consulate; or
(f) An official of another licensed financial institution or of an associate company of the licensee.

FC-1.2.6 The individual making the certification under FC-1.2.5 must give clear contact details (e.g. by attaching a business card or company stamp). The Islamic bank licensee must verify the identity of the person providing the certification through checking membership of a professional organisation (for lawyers or accountants), or through checking against databases/websites, or by direct phone or email contact.

Legal Entities or Legal Arrangements (such as trusts)

FC-1.2.7 If the customer is a legal entity or a legal arrangement such as a trust, the Islamic bank licensee must obtain and record the following information from original identification documents, databases or websites, in hard copy or electronic form, to verify the customer's legal existence and structure:

(a) The entity's full name and other trading names used;
(b) Registration number (or equivalent);
(c) Legal form;
(d) Registered address and trading address (where applicable);
(e) Type of business activity;
(f) Date and place of incorporation or establishment;

FC-1.2 Face-to-face Business (continued)

FC-1.2.7 (continued)

(g) Telephone, fax number and email address;
(h) Regulatory body or listing body (for regulated activities such as financial services and listed companies);
(i) Name of external auditor (where applicable);
(j) Type of account, and nature and volume of anticipated business dealings with the Islamic bank licensee; and
(k) Source of funds.

FC-1.2.8 **The information provided under FC-1.2.7 must be verified by obtaining certified copies of the following documents, as applicable (depending on the legal form of the entity):**

(a) Certificate of incorporation and/or certificate of commercial registration or trust deed;
(b) Memorandum of association;
(c) Articles of association;
(d) Partnership agreement;
(e) Board resolution seeking the banking services (only necessary in the case of private or unlisted companies);
(f) Identification documentation of the authorised signatories of the account (certification not necessary for companies listed in a GCC/FATF state);
(g) Copy of the latest financial report and accounts, audited where possible (audited copies do not need to be certified); and
(h) List of authorised signatories of the company for the account and a Board resolution (or other applicable document) authorising the named signatories or their agent to operate the account (resolution only necessary for private or unlisted companies).

FC-1.2.9 **Documents obtained to satisfy the requirements in FC-1.2.8 above must be certified in the manner specified in FC-1.2.4 to FC-1.2.6.**

FC-1.2.10 The documentary requirements in FC-1.2.8 above do not apply in the case of FATF/GCC listed companies: see Section FC-1.11 below. Also, the documents listed in FC-1.2.8 above are not exhaustive: for customers from overseas jurisdictions, documents of an equivalent nature may be produced as satisfactory evidence of a customer's identity.

FC-1.2 Face-to-face Business (continued)

FC-1.2.11 **Licensees must also obtain and document the following due diligence information. These due diligence requirements must be incorporated in the licensee's new business procedures:**

(a) Enquire as to the structure of the legal entity or trust sufficient to determine and verify the identity of the ultimate beneficial owner of the funds, the ultimate provider of funds (if different), and ultimate controller of the funds (if different);

(b) Ascertain whether the legal entity has been or is in the process of being wound up, dissolved, struck off or terminated;

(c) Obtain the names, country of residence and nationality of Directors or partners (only necessary for private or unlisted companies);

(d) Require, through new customer documentation or other transparent means, updates on significant changes to corporate ownership and/or legal structure;

(e) Obtain and verify the identity of shareholders holding 20% or more of the issued capital (where applicable). The requirement to verify the identity of these shareholders does not apply in the case of FATF/GCC listed companies;

(f) In the case of trusts or similar arrangements, establish the identity of the settlor(s), trustee(s), and beneficiaries (including making such reasonable enquiries as to ascertain the identity of any other potential beneficiary, in addition to the named beneficiaries of the trust); and

(g) Where a licensee has reasonable grounds for questioning the authenticity of the information supplied by a customer, conduct additional due diligence to confirm the above information.

FC-1.2.12 For the purposes of Paragraph FC-1.2.11, acceptable means of undertaking such due diligence might include taking bank references; visiting or contacting the company by telephone; undertaking a company search or other commercial enquiries; accessing public and private databases (such as stock exchange lists); making enquiries through a business information service or credit bureau; confirming a company's status with an appropriate legal or accounting firm; or undertaking other enquiries that are commercially reasonable.

FC-1.2.13 Where a licensee is providing investment management services to a regulated mutual fund, and is not receiving investors' funds being paid into the fund, it may limit its CDD to confirming that the administrator of the fund is subject to FATF-equivalent customer due diligence measures (see FC-1.9 for applicable measures). Where there are reasonable grounds for believing that investors' funds being paid into the fund are not being adequately verified by the administrator, then the licensee should consider terminating its relationship with the fund.

FC-1.3 Enhanced Customer Due Diligence: General Requirements

FC-1.3.1 **Enhanced customer due diligence must be performed on those customers identified as having a higher risk profile, and additional inquiries made or information obtained in respect of those customers.**

FC-1.3.2 The additional information referred to in Paragraph FC-1.3.1 might include documents (either in hard copy or electronic format) relating to the following:

(a) Evidence of a person's permanent address through the use of a credit reference agency search or through independent verification by home visit;
(b) A personal reference (e.g. by an existing customer of the Islamic bank licensee);
(c) Another licensed entity's reference and contact with the concerned licensee regarding the customer;
(d) Documentation outlining the customer's source of wealth;
(e) Documentation outlining the customer's source of income; and
(f) Independent verification of employment, or public position held.

FC-1.3.3 In addition to the general rule contained in Paragraph FC-1.3.1 above, special care is required in the circumstances specified in Sections FC-1.4 to FC-1.9 inclusive.

FC-1.4 Enhanced Customer Due Diligence: Non face-to-face Business and New Technologies

FC-1.4.1 **Islamic bank licensees must establish specific procedures for verifying customer identity where no face-to-face contact takes place.**

FC-1.4.2 **Where no face-to-face contact takes place, Islamic bank licensees must take additional measures (to those specified in Section FC-1.2), in order to mitigate the potentially higher risk associated with such business. In particular, Islamic bank licensees must take measures:**
(a) To ensure that the customer is the person they claim to be; and
(b) To ensure that the address provided is genuinely the customer's.

FC-1.4.3 There are a number of checks that can provide a Islamic bank licensee with a reasonable degree of assurance as to the authenticity of the applicant. They include:
(a) Telephone contact with the applicant on an independently verified home or business number;
(b) With the customer's consent, contacting an employer to confirm employment, via phone through a listed number or in writing; and
(c) Salary details appearing on recent bank statements.

FC-1.4.4 **Financial services provided via post, telephone or internet pose greater challenges for customer identification and AML/CFT purposes. Islamic bank licensees must establish procedures to prevent the misuse of technological developments in money laundering or terrorist financing schemes. Specifically, banks which provide significant electronic and internet banking services to their customers, should connect a programme to such systems to highlight all unusual transactions so as to enable the concerned bank to report such transactions. Islamic bank licensees must also ensure that they comply with any e-commerce laws and/or CBB regulations issued from time to time.**

FC-1.5 Enhanced Customer Due Diligence: Politically Exposed Persons ('PEPs')

FC-1.5.1 **Islamic bank licensees must have appropriate risk management systems to determine whether a customer is a Politically Exposed Person ('PEP'), both at the time of establishing business relations and thereafter on a periodic basis. Licensees must utilize publicly available databases and information to establish whether a customer is a PEP.**

FC-1.5.2 **Islamic bank licensees must establish a client acceptance policy with regard to PEPs, taking into account the reputational and other risks involved. Senior management approval must be obtained before a PEP is accepted as a customer.**

FC-1.5.3 **Where an existing customer is a PEP, or subsequently becomes a PEP, enhanced monitoring and customer due diligence measures must include:**

(a) Analysis of complex financial structures, including trusts, foundations or international business corporations;
(b) A written record in the customer file to establish that reasonable measures have been taken to establish both the source of wealth and the source of funds;
(c) Development of a profile of anticipated customer activity, to be used in on-going monitoring;
(d) Approval of senior management for allowing the customer relationship to continue; and
(e) On-going account monitoring of the PEP's account by senior management (such as the MLRO).

FC-1.5.4 'Politically Exposed Persons' mean individuals who are, or have been, entrusted with prominent public functions in Bahrain or a foreign country, such as Heads of State or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations or important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to PEPs themselves. The definition is not intended to cover middle-ranking or more junior officials in the foregoing categories. Bahraini PEPs would include all Ministers, all MPs, and all Ministry officials with the rank of Undersecretary or above.

FC-1.6 Enhanced Due Diligence: Charities, Clubs and Other Societies

FC-1.6.1 **Financial services must not be provided to charitable funds and religious, sporting, social, cooperative and professional societies, before an original certificate authenticated by the relevant Ministry confirming the identities of those purporting to act on their behalf (and authorising them to obtain the said service) has been obtained. For Clubs and Societies registered with the General Organisation for Youth and Sports (GOYS), Islamic bank licensees must contact GOYS to clarify whether the account may be opened in accordance with the rules of GOYS.**

FC-1.6.2 Islamic bank licensees are reminded that clubs and societies registered with GOYS may only have one account with banks in Bahrain.

FC-1.6.3 **Charities should be subject to enhanced transaction monitoring by banks. Islamic bank licensees should develop a profile of anticipated account activity (in terms of payee countries and recipient organisations in particular).**

FC-1.6.4 **Islamic bank licensees must provide a monthly report of all payments and transfers of BD3,000 (or equivalent in foreign currencies) and above, from accounts held by charities registered in Bahrain. The report must be submitted to the CBB's Compliance Directorate (see FC-5.3 for contact address), giving details of the amount transferred, account name, number and beneficiary name account and bank details. Islamic bank licensees must ensure that such transfers are in accordance with the spending plans of the charity (in terms of amount, recipient and country).**

FC-1.7 Enhanced Due Diligence: 'Pooled Funds'

FC-1.7.1 Where Islamic bank licensees receive pooled funds managed by professional intermediaries (such as investment and pension fund managers, stockbrokers and lawyers or authorised money transferors), they must apply CDD measures contained in Section FC-1.9 to the professional intermediary. In addition, Islamic bank licensees must verify the identity of the beneficial owners of the funds where required as detailed in Paragraphs FC-1.7.2 or FC-1.7.3 below.

FC-1.7.2 Where funds pooled in an account are not co-mingled (i.e. where there are 'sub-accounts' attributable to each beneficiary) all beneficial owners must be identified by the Islamic bank licensee, and their identity verified in accordance with the requirements in Section FC-1.2.

FC-1.7.3 For accounts held by intermediaries resident in Bahrain, where such funds are co-mingled, the Islamic bank licensee must make a reasonable effort (in the context of the nature and amount of the funds received) to look beyond the intermediary and determine the identity of the beneficial owners or underlying clients, particularly where funds are banked and then transferred onward to other financial institutions (e.g. in the case of accounts held on behalf of authorised money transferors). Where, however, the intermediary is subject to equivalent regulatory and money laundering regulation and procedures (and, in particular, is subject to the same due diligence standards in respect of its client base) the CBB will not insist upon all beneficial owners being identified provided the Islamic bank licensee has undertaken reasonable measures to determine that the intermediary has engaged in a sound customer due diligence process, consistent with the requirements in Section FC-1.8.

FC-1.7 Enhanced Due Diligence: 'Pooled Funds' (cont'd)

FC-1.7.4 For accounts held by intermediaries from foreign jurisdictions, the intermediary must be subject to requirements to combat money laundering and terrorist financing consistent with the FATF 49 Recommendations and the intermediary must be supervised for compliance with those requirements. The bank must obtain documentary evidence to support the case for not carrying out customer due diligence measures beyond identifying the intermediary. The bank must satisfy itself that the intermediary has identified the underlying beneficiaries and has the systems and controls to allocate the assets in the pooled accounts to the relevant beneficiaries. The due diligence process contained in Section FC-1.8 must be followed.

FC-1.7.5 Where the intermediary is not empowered to provide the required information on beneficial owners (e.g. lawyers bound by professional confidentiality rules) or where the intermediary is not subject to the same due diligence standards referred to above, a bank must not permit the intermediary to open an account or allow the account to continue to operate, unless specific permission has been obtained in writing from the CBB.

FC-1.8 Enhanced Due Diligence for Correspondent Banking Relationships

FC-1.8.1 The customer due diligence measures outlined under Section FC-1.2 must be carried out in the normal way on the respondent bank (subject to the simplified measures applicable for FATF/GCC banks under FC-1.11). Islamic bank licensees which intend to act as correspondent banks must gather sufficient additional information (e.g. through a questionnaire) about their respondent banks to understand the nature of the respondent's business. Factors to consider to provide assurance that satisfactory measures are in place at the respondent bank include:

a) Information about the respondent bank's ownership structure and management;

b) Major business activities of the respondent and its location (i.e. whether it is located in a FATF compliant jurisdiction) as well as the location of its parent (where applicable);

c) Where the customers of the respondent bank are located;

d) The respondent's AML/CFT controls;

e) The purpose for which the account will be opened;

f) Confirmation that the respondent bank has verified the identity of any third party entities that will have direct access to the correspondent banking services without reference to the respondent bank (e.g. in the case of 'payable through' accounts);

g) The extent to which the respondent bank performs on-going due diligence on customers with direct access to the account, and the condition of bank regulation and supervision in the respondent's country (e.g. from published FATF reports). Banks should take into account the country where the respondent bank is located and whether that country abides by the FATF 40+ 9 Recommendations when establishing correspondent relationships with foreign banks. Banks should obtain where possible copies of the relevant laws and regulations concerning AML/CFT and satisfy themselves that respondent banks have effective customer due diligence measures consistent with the FATF 40+ 9 Recommendations;

FC-1.8 Enhanced Due Diligence: Correspondent Banking Relationships (continued)

h) Confirmation that the respondent bank is able to provide relevant customer identification data on request to the correspondent bank; and

i) Whether the respondent bank been subject to a money laundering or terrorist financing investigation.

FC-1.8.2 Islamic bank licensees must implement the following additional measures, prior to opening a correspondent banking relationship:

a) Complete a signed statement that outlines the respective responsibilities of each institution in relation to money laundering detection and monitoring responsibilities; and

b) Ensure that the correspondent banking relationship has the approval of senior management.

FC-1.8.3 Islamic bank licensees must refuse to enter into or continue a correspondent banking relationship with a bank incorporated in a jurisdiction in which it has no physical presence and which is unaffiliated with a regulated financial group (i.e. 'shell banks', see Section FC-1.10). Banks must pay particular attention when entering into or continuing relationships with respondent banks located in jurisdictions that have poor KYC standards or have been identified by the FATF as being 'non-cooperative' in the fight against money laundering/terrorist financing.

FC-1.9 Introduced Business from Professional Intermediaries

FC-1.9.1 An Islamic bank licensee may only accept customers introduced to it by other financial institutions or intermediaries, if it has satisfied itself that the financial institution or intermediary concerned is subject to FATF-equivalent customer due diligence measures. Where Islamic bank licensees delegate part of the customer due diligence measures to another financial institution or intermediary, the responsibility for meeting the requirements of Chapters 1 and 2 remains with the Islamic bank licensee, not the third party.

FC-1.9.2 Islamic bank licensees may only accept introduced business if all of the following conditions are satisfied:

(a) The customer due diligence measures applied by the introducer are consistent with those required by the FATF 40 + 9 Recommendations;

(b) A formal agreement is in place defining the respective roles of the licensee and the introducer in relation to customer due diligence measures. The agreement must specify that the customer due diligence measures of the introducer will comply with the FATF 40 + 9 Recommendations;

(c) The introducer is able to provide all relevant data pertaining to the customer's identity, the identity of the customer and beneficial owner of the funds (where different) and, where applicable, the party/parties on whose behalf the customer is acting; also, the introducer has confirmed that the licensee will be allowed to verify the customer due diligence measures undertaken by the introducer at any stage; and

(d) Written confirmation is provided by the introducer confirming that all customer due diligence measures required by the FATF 40 + 9 Recommendations have been followed and the customer's identity established and verified. In addition, the confirmation must state that any identification documents or other customer due diligence material can be accessed by the Islamic bank licensee and that these documents will be kept for at least five years after the business relationship has ended.

FC-1.9.3 The Islamic bank licensee must perform periodic reviews ensuring that any introducer on which it relies is in compliance with the FATF 40 + 9 Recommendations. Where the introducer is resident in another jurisdiction, the Islamic bank licensee must also perform periodic reviews to verify whether the jurisdiction is in compliance with the FATF 40 + 9 Recommendations.

FC-1.9 Introduced Business from Professional Intermediaries (continued)

FC-1.9.4 Should the Islamic bank licensee not be satisfied that the introducer is in compliance with the requirements of the FATF 40 + 9 Recommendations, the licensee must conduct its own customer due diligence on introduced business, or not accept further introductions, or discontinue the business relationship with the introducer.

FC-1.10 Shell Banks

FC-1.10.1 Islamic bank licensees must not establish business relations with banks, which have no physical presence or 'mind and management' in the jurisdiction in which they are licensed and which is unaffiliated with a regulated financial group ('shell banks'). Banks must not knowingly establish relations with banks that have relations with shell banks.

FC-1.10.2 Islamic bank licensees must make a suspicious transaction report to the Anti-Money Laundering Unit and the Compliance Directorate if they are approached by a shell bank or an institution they suspect of being a shell bank.

FC-1.11 Simplified Customer Due Diligence

FC-1.11.1 Islamic bank licensees may apply simplified customer due diligence measures, as described in Paragraphs FC-1.11.2 to FC-1.11.8, if:

(a) The customer is the Central Bank of Bahrain ('CBB'), the Bahrain Stock Exchange ('BSE') or a licensee of the CBB;

(b) The customer is a Ministry of a Gulf Cooperation Council ('GCC') or Financial Action Task Force ('FATF') member state government, a company in which a GCC or a FATF government is a majority shareholder, or a company established by decree in the GCC;

(c) The customer is a company listed on a GCC or FATF member state stock exchange (where the FATF state stock exchange has equivalent disclosure standards to those of the BSE);

(d) The customer is a financial institution whose entire operations are subject to AML/CFT requirements consistent with the FATF Recommendations / Special Recommendations and it is supervised by a financial services supervisor in a FATF or GCC member state for compliance with those requirements;

(e) The customer is a financial institution which is a subsidiary of a financial institution located in a FATF or GCC member state, and the AML/CFT requirements applied to its parent also apply to the subsidiary; or

(f) The customer is a borrower in a syndicated transaction where the agent bank is a financial institution whose entire operations are subject to AML/CFT requirements consistent with the FATF Recommendations / Special Recommendations and it is supervised by a financial services supervisor in a FATF or GCC member state for compliance with those requirements.

(g) The transaction is a one-off or occasional transaction not exceeding BD 6,000 (or equivalent in other currencies), or one of a number of transactions which are related and, when taken together, do not exceed BD 6,000 per year (or equivalent in other currencies).

FC-1.11.2 For customers falling under categories a-f specified in Paragraph FC-1.11.1, the information required under Paragraph FC-1.2.1 (for natural persons) or FC-1.2.7 (for legal entities or legal arrangements such as trusts) must be obtained. However, the verification and certification requirements in Paragraphs FC-1.2.3 and FC-1.2.8, and the due diligence requirements in Paragraph FC-1.2.11, may be dispensed with. Where the account is a correspondent banking relationship, enhanced due diligence applies. Refer to Section FC-1.8.

FC-1.11 Simplified Customer Due Diligence (continued)

FC-1.11.3 For customers falling under Category (g) in paragraph FC-1.11.1, the customer's name and contact information must be recorded. However, the verification, certification and due diligence requirements in Paragraphs FC-1.2.3, FC-1.2.8 and FC-1.2.11 may be dispensed with. As a matter of prudence, it is recommended that identification documentation is checked by the Islamic Bank Licensee. Islamic bank licensees may, of course, continue to apply the verification, certification and due diligence requirements mentioned in Paragraph FC-1.11.2 for their own purposes.

FC-1.11.4 **Islamic bank licensees wishing to apply simplified due diligence measures as allowed for under Paragraph FC-1.11.1 must retain documentary evidence supporting their categorisation of the customer.**

FC-1.11.5 Examples of such documentary evidence may include a printout from a regulator's website, confirming the licensed status of an institution, and internal papers attesting to a review of the AML/CFT measures applied in a jurisdiction.

FC-1.11.6 **Islamic bank licensees may use authenticated SWIFT messages as a basis for confirmation of the identity of a financial institution under FC-1.11.1 (d) and (e) where it is dealing as principal. For customers coming under Paragraph FC-1.11.1 (d) and (e), Islamic bank licensees must also obtain and retain a written statement from the parent institution of the subsidiary concerned, confirming that the subsidiary is subject to the same AML/CFT measures as its parent.**

FC-1.11.7 **Simplified customer due diligence measures must not be applied where an Islamic bank licensee knows, suspects, or has reason to suspect, that the applicant is engaged in money laundering or terrorism financing or that the transaction is carried out on behalf of another person engaged in money laundering or terrorism financing.**

FC-1.11.8 **Simplified customer due diligence measures must not be applied where an Islamic bank licensee knows, suspects, or has reason to suspect, that transactions are linked, such that they exceed the threshold specified in Paragraph FC-1.11.1 (g).**

FC-2.1 General Requirements

FC-2.1.1 **Islamic bank licensees must take reasonable care to establish and maintain appropriate systems and controls for compliance with the requirements of this Module and to limit their vulnerability to financial crime. These systems and controls must be documented, and approved and reviewed annually by the Board of the licensee. The documentation, and the Board's review and approval, must be made available upon request to the CBB.**

FC-2.1.2 The above systems and controls, and associated documented policies and procedures, should cover standards for customer acceptance, on-going monitoring of high-risk accounts, staff training and adequate screening procedures to ensure high standards when hiring employees.

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring

Risk Based Monitoring

FC-2.2.1 **Islamic bank licensees must develop risk-based monitoring systems appropriate to the complexity of their business, their number of clients and types of transactions. These systems must be configured to identify significant or abnormal transactions or patterns of activity. Such systems must include limits on the number, types or size of transactions undertaken outside expected norms; and must include limits for cash and non-cash transactions.**

FC-2.2.2 Islamic bank licensees' risk-based monitoring systems should therefore be configured to help identify:

(a) Transactions which do not appear to have a clear purpose or which make no obvious economic sense;

(b) Significant or large transactions not consistent with the normal or expected behaviour of a customer; and

(c) Unusual patterns of activity (relative to other customers of the same profile or of similar types of transactions, for instance because of differences in terms of volumes, transaction type, or flows to or from certain countries), or activity outside the expected or regular pattern of a customer's account activity.

Automated Transaction Monitoring

FC-2.2.3 **Islamic bank licensees must consider the need to include automated transaction monitoring as part of their risk-based monitoring systems to spot abnormal or unusual flows of funds. In the absence of automated transaction monitoring systems, all transactions above BD 6,000 must be viewed as 'significant' and be captured in a daily transactions report for monitoring by the MLRO or a relevant delegated official, and records retained by the Islamic bank licensee for five years after the date of the transaction.**

FC-2.2.4 CBB would expect larger Islamic bank licensees to include automated transaction monitoring as part of their risk-based monitoring systems. See also Chapters FC-4 and FC-7, regarding the responsibilities of the MLRO and record-keeping requirements.

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring (continued)

Unusual Transactions or Customer Behaviour

FC-2.2.5 **Where an Islamic bank licensee's risk-based monitoring systems identify significant or abnormal transactions (as defined in FC-2.2.2 and FC-2.2.3), it must verify the source of funds for those transactions, particularly where the transactions are above the occasional transactions threshold of BD 6,000. Furthermore, Islamic bank licensees must examine the background and purpose to those transactions and document their findings.**

FC-2.2.6 **The investigations required under FC-2.2.5 must be carried out by the MLRO (or relevant delegated official). The documents relating to these findings must be maintained for five years from the date when the transaction was completed (see also FC-7.1.1 (b)).**

FC-2.2.7 **Islamic bank licensees must consider instances where there is a significant, unexpected or unexplained change in customer activity.**

FC-2.2.8 **When an existing customer closes one account and opens another, the Islamic bank licensee must review its customer identity information and update its records accordingly. Where the information available falls short of the requirements contained in Chapter FC-1, the missing or out of date information must be obtained and re-verified with the customer.**

FC-2.2.9 Once identification procedures have been satisfactorily completed and, as long as records concerning the customer are maintained in line with Chapters FC-1 and FC-7, no further evidence of identity is needed when transactions are subsequently undertaken within the expected level and type of activity for that customer, provided reasonably regular contact has been maintained between the parties and no doubts have arisen as to the customer's identity.

FC-2.2 On-going Customer Due Diligence and Transaction Monitoring (continued)

Maintaining Documentation

FC-2.2.10 Islamic bank licensees must take reasonable steps to ensure that they receive and maintain up-to-date copies of the identification documents specified in Chapter FC-1. Islamic bank licensees must require all customers to provide up-to-date identification documents in their standard terms and conditions of business.

FC-2.2.11 Islamic bank licensees must review and update their customer due diligence information at least every three years. If, upon performing such a review, copies of identification documents are more than 12 months out of date, the Islamic bank licensee must take steps to obtain updated copies as soon as possible.

FC-3.1 Electronic transfers

Outward Transfers

FC-3.1.1 **Islamic bank licensees must include all required originator information details with the accompanying electronic transfers of funds they make on behalf of their customers. Non-routine transfers must not be batched, if batching increases the risks of money laundering or terrorist financing. This obligation does not apply where the transfer is made by a bank acting as principal or acting on behalf of another bank as principal such as in the case of payment of spot FX transactions.**

FC-3.1.2 **For the purposes of this Chapter, 'Originator Information' means:**

a) The name of the payer;
b) The address of the payer; and
c) The account number of the payer (where funds are being remitted from an account with your bank).

FC-3.1.3 It is not necessary for the recipient institution to pass the originator information on to the payee. The obligation is discharged simply by notifying the recipient institution of the originator information at the time the transfer is made.

Inward Transfers

FC-3.1.4 **Banks must:**

a) Maintain records (in accordance with Chapter FC-7 of this Module) of all originator information received with an inward transfer; and

b) Carefully scrutinise inward transfers which do not contain originator information (i.e. full name, address and account number or a unique customer identification number). Licensees must presume that such transfers are 'suspicious transactions' and pass them to the MLRO for review for determination as to possible filing of an STR, unless (a), the sending institution is able to promptly (i.e. within two business days) advise the licensee in writing of the originator information upon the licensee's request; or (b) the sending institution and the licensee are acting on their own behalf (as principals).

FC-3.2 Remittances on behalf of other Money Transferors

FC-3.2.1 Whenever a Islamic bank licensee uses the services of Authorised Money Transferors to effect the transfer of funds for a customer to a person or organisation in another country, that licensee must, in respect of the amount so transferred, maintain records of:

a) The identity of its customer(s) in accordance with Chapters FC-1 and FC-7 of this Module; and

b) The exact amount transferred for each such customer (particularly where a single transfer is effected for more than one customer).

FC-3.2.2 Islamic bank licensees must be able to produce this information for inspection immediately upon request by the CBB.

FC-3.2.3 Islamic bank licensees must not transfer funds for customers to a person or organisation in another country by *any means* other than through an Authorised Money Transferor. Where a licensee is found to be in contravention of this rule, the Central Bank will not hesitate to impose sanctions upon that licensee (and in serious cases may revoke that licensee's license).

FC-4.1 Appointment of MLRO

FC-4.1.1 **Islamic bank licensees must appoint a Money Laundering reporting officer ('MLRO'). The position of MLRO is a controlled function and the MLRO is an approved person. The MLRO must be approved by CBB prior to his appointment. The licensee must notify the CBB of the appointment of the MLRO, using the MLRO form (Appendix FC-4) and submit a completed Form 3.**

FC-4.1.2 For details of CBB's requirements regarding controlled functions and approved persons, see Section AU-1.2. Amongst other things, approved persons require CBB approval before being appointed, which is granted only if they are assessed as 'fit and proper' for the function in question. A completed Form 3 must accompany any request for CBB approval.

FC-4.1.3 **The position of MLRO must not be combined with functions that create potential conflicts of interest, such as an internal auditor or business line head. The position of MLRO may not be outsourced.**

FC-4.1.4 Subject to Paragraph FC-4.1.2, however, the position of MLRO may otherwise be combined with other functions in the Islamic bank licensee, such as that of Compliance Officer, in cases where the volume and geographical spread of the business is limited and, therefore, the demands of the function are not likely to require a full time resource. Paragraph FC-4.1.6 requires that the MLRO is a Director or employee of the licensee, so the function may not be outsourced to a third party employee.

FC-4.1.5 **Islamic bank licensees must appoint at least one deputy MLRO (or more depending on the scale and complexity of the licensee's operations) to act for the MLRO in his absence. The deputy MLRO must be resident in Bahrain unless otherwise agreed with the CBB.**

FC-4.1.6 Islamic bank licensees should note that although the MLRO may delegate some of his functions, either within the licensee or even possibly (in the case of larger groups) to individuals performing similar functions for other group entities, that the responsibility for compliance with the requirements of this Module remains with the licensee and the designated MLRO.

FC-4.1 Appointment of MLRO (continued)

FC-4.1.7 So that he can carry out his functions effectively, Islamic bank licensees must ensure that their MLRO:

(a) Is a Director or a member of senior management of the licensee;
(b) Has a sufficient level of seniority within the Islamic bank licensee, has the authority to act without interference from business line management and has direct access to the Board and senior management (where necessary);
(c) Has sufficient resources, including sufficient time and (if necessary) support staff, and has designated a replacement to carry out the function should the MLRO be unable to perform his duties;
(d) Has unrestricted access to all transactional information relating to any financial services provided by the Islamic bank licensee to that customer, or any transactions conducted by the Islamic bank licensee on behalf of a customer;
(e) Is provided with timely information needed to identify, analyse and effectively monitor customer accounts;
(f) Has access to all customer due diligence information obtained by the Islamic bank licensee; and
(g) Is resident in Bahrain.

FC-4.1.8 In addition, Islamic bank licensees must ensure that their MLRO is able to:

(a) Monitor the day-to-day operation of its policies and procedures relevant to this Module; and
(b) Respond promptly to any reasonable request for information made by the Anti-Money Laundering Unitor the CBB.

FC-4.1.9 If the position of MLRO falls vacant, the Islamic bank licensee must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the licensee must make immediate interim arrangements (including the appointment of an acting MLRO) to ensure continuity in the MLRO function's performance. These interim arrangements must be approved by the CBB.

FC-4.2 Responsibilities of the MLRO

FC-4.2.1 **The MLRO is responsible for:**

(a) Establishing and maintaining the Islamic bank licensee's AML/CFT policies and procedures;

(b) Ensuring that the licensee complies with the AML Law and any other applicable AML/CFT legislation and regulations;

(c) Ensuring day-to-day compliance with the licensee's own internal AML/CFT policies and procedures;

(d) Acting as the Islamic bank licensee's main point of contact in respect of handling internal suspicious transactions reports from the licensee's staff (refer to Section FC-5.1) and as the main contact for the Financial Intelligence Unit, the CBB and other concerned bodies regarding AML/CFT;

(e) Making external suspicious transactions reports to the Anti-Money Laundering Unit and Compliance Directorate (refer to Section FC-5.2);

(f) Taking reasonable steps to establish and maintain adequate arrangements for staff awareness and training on AML/CFT matters (whether internal or external), as per Chapter FC-5;

(g) Producing annual reports on the effectiveness of the licensee's AML / CFT controls, for consideration by senior management, as per Paragraph FC-4.3.3;

(h) On-going monitoring of what may, in his opinion, constitute high-risk customer accounts; and

(i) Maintaining all necessary CDD, transactions, STR and staff training records for the required periods (refer to Section FC-7.1).

FC-4.3 Compliance Monitoring

Annual Compliance Review

FC-4.3.1 **An Islamic bank licensee must review the effectiveness of its AML/CFT procedures, systems and controls at least once each calendar year. The review must cover the Islamic bank licensee and its branches and subsidiaries both inside and outside the Kingdom of Bahrain. The scope of the review must include:**

(a) A report, containing the number of internal reports made in accordance with Section FC-5.1, a breakdown of all the results of those internal reports and their outcomes for each segment of the licensee's business, and an analysis of whether controls or training need to be enhanced;

(b) A report, indicating the number of external reports made in accordance with Section FC-5.2 and, where a Islamic bank licensee has made an internal report but not made an external report, noting why no external report was made;

(c) A sample test of compliance with this Module's customer due diligence requirements; and

(d) A report as to the quality of the Islamic bank licensee's anti-money laundering procedures, systems and controls, and compliance with the AML Law and this Module.

FC-4.3.2 **The reports listed under Paragraph FC-4.3.1 (a) and (b) must be made by the MLRO. The sample testing required under Paragraph FC-4.3.1 (c) must be undertaken either by the licensee's internal audit function or its external auditors. The report required under Paragraph FC-4.3.1 (d) must be made by the licensee's external auditors.**

FC-4.3.3 **The reports listed under Paragraph FC-4.3.1 must be submitted to the licensee's Board, for it to review and commission any required remedial measures, and copied to the licensee's senior management.**

FC-4.3.4 The purpose of the annual compliance review is to assist a licensee's Board and senior management to assess, amongst other things, whether internal and external reports are being made (as required under Chapter FC-5), and whether the overall number of such reports (which may otherwise appear satisfactory) does not conceal inadequate reporting in a particular segment of the licensee's business (or, where relevant, in particular branches or subsidiaries). Islamic bank licensees should use their judgement as to how the reports listed under Paragraph FC-4.3.1 (a) and (b) should be broken down in order to achieve this aim (e.g. by branches, departments, product lines, etc).

FC-4.3 Compliance Monitoring (continued)

FC-4.3.5 **Islamic bank licensees must instruct their external auditors to produce the report referred to in Paragraph FC-4.3.1 (d). The report must be submitted to the Compliance Directorate at the CBB by the 30th of April of the following year. The findings of this review must be received and acted upon by the licensee.**

FC-4.3.6 The external auditors may rely upon work performed by the licensee's internal audit function, as part of their procedures for producing the statement referred to in Paragraph FC-4.3.5.

FC-5.1 Internal Reporting

FC-5.1.1 Islamic bank licensees must implement procedures to ensure that staff who handle customer business (or are managerially responsible for such staff) make a report promptly to the MLRO if they know or suspect that a customer (or a person on whose behalf a customer may be acting) is engaged in money laundering or terrorism financing, or if the transaction or the customer's conduct otherwise appears unusual or suspicious. These procedures must include arrangements for disciplining any member of staff who fails, without reasonable excuse, to make such a report.

FC-5.1.2 Where Islamic bank licensees' internal processes provide for staff to consult with their line managers before sending a report to the MLRO, such processes must not be used to prevent reports reaching the MLRO, where staff have stated that they have knowledge or suspicion that a transaction may involve money laundering or terrorist financing.

FC-5.2 External Reporting

FC-5.2.1 Islamic bank licensees must take reasonable steps to ensure that all reports made under Section FC-5.1 are considered by the MLRO (or his duly authorised delegate). Having considered the report and any other relevant information the MLRO (or his duly authorised delegate), if he still suspects that a person has been engaged in money laundering or terrorism financing, or the activity concerned is otherwise still regarded as suspicious, must report the fact promptly to the relevant authorities. Where no report is made, the MLRO must document the reasons why.

FC-5.2.2 To take reasonable steps, as required under Paragraph FC-5.2.1, Islamic bank licensees must:

(a) Require the MLRO to consider reports made under Section FC-5.1.1 in the light of all relevant information accessible to or reasonably obtainable by the MLRO;

(b) Permit the MLRO to have access to any information, including know your customer information, in the Islamic bank licensee's possession which could be relevant; and

(c) Ensure that where the MLRO, or his duly authorised delegate, suspects that a person has been engaged in money laundering or terrorist financing, a report is made by the MLRO which is not subject to the consent or approval of any other person.

FC-5.2.3 Reports to the relevant authorities made under Paragraph FC-5.2.1 must be sent to the Anti-Money Laundering Unit at the Ministry of the Interior, with a copy sent to the CBB's Compliance Directorate. Reports must be made using the Suspicious Transaction Report (STR) form and related instructions, included in Part B of Volume 2 (Islamic Banks).

FC-5.2.4 Islamic bank licensees must report all suspicious transactions or attempted transactions. This reporting requirement applies regardless of whether the transaction involves tax matters.

FC-5.2 External Reporting (continued)

FC-5.2.5 Islamic bank licensees must retain all relevant details of STRs submitted to the relevant authorities, for at least five years.

FC-5.2.6 In accordance with the AML Law, Islamic bank licensees, their Directors, officers and employees must not warn or inform ('tipping off') their customers, the beneficial owner or other subjects of the STR when information relating to them is being reported to the relevant authorities.

FC-5.3 Contacting the Relevant Authorities

FC-5.3.1 Reports made by the MLRO or his duly authorised delegate under Section FC-5.2 must be sent to the Anti-Money Laundering Directorate at the Ministry of the Interior and copied to the Compliance Directorate at the Central Bank of Bahrain at the following addresses:

Anti-Money Laundering Unit
General Directorate of Criminal Investigation
Ministry of Interior
P.O. Box 26698
Manama, Kingdom of Bahrain
Telephone: 17 718888
Fax: 17 715818
E-mail: aecd@batelco.com.bh or amlu@batelco.com.bh

Director of Compliance Directorate
Central Bank of Bahrain
P.O. Box 27
Manama, Kingdom of Bahrain
Telephone: 17 547107
Fax: 17 535673
E-mail: Compliance@cbb.gov.bh

FC-6.1 General Requirements

FC-6.1.1 **An Islamic bank licensee must take reasonable steps to provide periodic training and information to ensure that staff who handle customer transactions, or are managerially responsible for such transactions, are made aware of:**

(a) Their responsibilities under the AML Law, this Module, and any other relevant AML / CFT laws and regulations;

(b) The identity and responsibilities of the MLRO and his deputy;

(c) The potential consequences, both individual and corporate, of any breach of the AML Law, this Module and any other relevant AML / CFT laws or regulations;

(d) The Islamic bank licensee's current AML/CFT policies and procedures;

(e) Money laundering and terrorist financing typologies and trends;

(f) The type of customer activity or transaction that may justify an internal STR;

(g) The Islamic bank licensee's procedures for making internal STRs; and

(h) Customer due diligence measures with respect to establishing business relations with customers.

FC-6.1.2 **The information referred to in Paragraph FC-6.1.1 must be brought to the attention of relevant new employees of Islamic bank licensees, and must remain available for reference by staff during their period of employment.**

FC-6.1.3 **Relevant new employees must be given AML/CFT training within three months of joining an Islamic bank licensee.**

FC-6.1.4 **Islamic bank licensees must ensure that their AML/CFT training for relevant staff remains up-to-date, and is appropriate given the licensee's activities and customer base.**

FC-6.1.5 The CBB would normally expect AML/CFT training to be provided to relevant staff at least once a year.

FC-6.1.6 **Islamic bank licensees must develop adequate screening procedures to ensure high standards when hiring employees. These procedures must include controls to prevent criminals or their associates from being employed by licensees.**

FC-7.1 General Requirements

CDD and Transaction Records

FC-7.1.1 Islamic bank licensees must comply with the record keeping requirements contained in the AML Law. Islamic bank licensees must therefore retain adequate records (including accounting and identification records), for the following minimum periods:

(a) For customers, in relation to evidence of identity and business relationship records (such as application forms and business correspondence), for at least five years after the customer relationship has ceased; and

(b) For transactions, in relation to documents (including customer instructions in the form of letters, faxes or emails) enabling a reconstitution of the transaction concerned, for at least five years after the transaction was completed.

Compliance Records

FC-7.1.2 Islamic bank licensees must retain copies of the reports produced for their annual compliance review, as specified in Paragraph FC-4.3.1, for at least five years. Licensees must also maintain for 5 years reports made to, or by, the MLRO made in accordance with Sections FC-5.1 and FC-5.2, and records showing how these reports were dealt with and what action, if any, was taken as a consequence of those reports.

Training Records

FC-7.1.3 Islamic bank licensees must maintain for at least five years, records showing the dates when AML/CFT training was given, the nature of the training, and the names of the staff that received the training.

Access

FC-7.1.4 All records required to be kept under this Section must be made available for prompt and swift access by the relevant authorities or other authorised persons.

FC-7.1.5 Islamic bank licensees are also reminded of the requirements contained in Chapter OM-7 (Books and Records).

FC-8.1 Special Measures for Non-Cooperative Countries or Territories ('NCCTs')

FC-8.1.1 Islamic bank licensees must give special attention to any dealings they may have with entities or persons domiciled in countries or territories which are:

(a) Identified by the FATF as being 'non-cooperative'; or

(b) Notified to Islamic bank licensees from time to time by the CBB.

FC-8.1.2 Whenever transactions with such parties have no apparent economic or visible lawful purpose, their background and purpose must be re-examined and the findings documented. If suspicions remain about the transaction, these must be reported to the relevant authorities in accordance with Section FC-5.2.

FC-8.2 Terrorist Financing

FC-8.2.1 **Islamic bank licensees must comply in full with any rules or regulations issued by the CBB in connection with the provisions of the UN Security Council Anti-terrorism Resolution No. 1373 of 2001 ('UNSCR 1373'), including the rules in this Chapter.**

FC-8.2.2 **Any Islamic bank licensee that wishes, intends or has been requested to do anything that might contravene, in its reasonable opinion, the provisions of UNSCR 1373 (and in particular Article 1, paragraphs c) and d) of UNSCR 1373) must seek, in writing, the prior written opinion of the CBB on the matter.**

FC-8.2.3 A copy of UNSCR 1373 is included in Part B of Volume 2 (Islamic Banks), under 'Supplementary Information'.

FC-8.2.4 **Islamic bank licensees must report to the CBB details of:**
(a) Funds or other financial assets or economic resources held with them which may be the subject of Article 1, paragraphs c) and d) of UNSCR 1373; and
(b) All claims, whether actual or contingent, which the Islamic bank licensee has on persons and entities which may be the subject of Article 1, paragraphs c) and d) of UNSCR 1373.

FC-8.2.5 For the purposes of Paragraph FC-8.2.4, 'funds or other financial resources' includes (but is not limited to) shares in any undertaking owned or controlled by the persons and entities referred to in Article 1, paragraph c) and d) of UNSCR 1373, and any associated dividends received by the licensee.

FC-8.2.6 **All reports or notifications under this Section must be made to the CBB's Compliance Directorate.**

FC-8.2.7 See Section FC-5.3 for the Compliance Directorate's contact details.

FC-8.3 Designated Persons and Entities

FC-8.3.1 **Without prejudice to the general duty of all Islamic licensees to exercise the utmost care when dealing with persons or entities who might come under Article 1, paragraphs (c) and (d) of UNSCR 1373, Islamic bank licensees must not deal with any persons or entities designated by the CBB as potentially linked to terrorist activity.**

FC-8.3.2 The CBB from time to time issues to licensees lists of designated persons and entities believed linked to terrorism. Licensees are required to verify that they have no dealings with these designated persons and entities, and report back their findings to the CBB. Names designated by CBB include persons and entities designated by the United Nations, under UN Security Council Resolution 1267 ('UNSCR 1267').

FC-8.3.3 **Islamic bank licensees must report to the relevant authorities, using the procedures contained in Section FC-5.2, details of any accounts or other dealings with designated persons and entities, and comply with any subsequent directions issued by the relevant authorities.**

FC-9.1 Regulatory Penalties

FC-9.1.1 **Without prejudice to any other penalty imposed by the CBB Law, the AML Law No. 4 or the Penal Code of the Kingdom of Bahrain, failure by a licensee to comply with this Module or any direction given hereunder shall result in the levying by the CBB, without need of a court order and at the CBB's discretion, of a fine of up to BD 20,000.**

FC-9.1.2 Module EN provides further information on the assessment of financial penalties and the criteria taken into account prior to imposing such fines (reference to Paragraph EN-5.1.4). Other enforcement measures may also be applied by CBB in response to a failure by a licensee to comply with this Module; these other measures are also set out in Module EN.

FC-9.1.3 The CBB will endeavour to assist Islamic bank licensees to interpret and apply the rules and guidance in this Module. Islamic bank licensees may seek clarification on any issue by contacting the Compliance Directorate (see Section FC-5.3 for contact details).

FC-9.1.4 Without prejudice to the CBB's general powers under the law, the CBB may amend, clarify or issue further directions on any provision of this Module from time to time, by notice to its licensees.

FC-10.1 Guidance Provided by International Bodies

FATF: 40 Recommendations and 9 Special Recommendations

FC-10.1.1 The Forty Recommendations (see www.fatf-gafi.org) and Nine Special Recommendations (together with their associated interpretative notes and best practices papers) issued by the Financial Action Task Force (FATF), provide the basic framework for combating money laundering activities and the financing of terrorism. FATF Recommendations 4-6, 8-11, 13-15, 17-19, 21-23, 25, 29-32 and 40 as well as Special Recommendations IV-IX, and the AML/CFT Methodology are specifically relevant to the banking sector.

FC-10.1.2 The relevant authorities in Bahrain believe that the principles established by these Recommendations and Special Recommendations should be followed by licensees in all material respects, as representing best practice and prudence in this area.

Basel Committee: Statement on money laundering and Customer Due Diligence for banks

FC-10.1.3 In December 1988, the Basel Committee on Banking Supervision issued a 'Statement of Principles' followed by the Customer Due Diligence for Banks paper in October 2001 (with attachment dated February 2003 – see www.bis.org/publ/) with which internationally active banks of member states are expected to comply. These papers cover identifying customers, avoiding suspicious transactions, and co-operating with law enforcement agencies.

FC-10.1.4 The CBB supports the above papers and the desirability of all Islamic bank licensees adhering to their requirements and guidance.

Other Website References Relevant to AML/CFT

FC-10.1.5 The following lists a selection of other websites relevant to AML/CFT:

(a) the Middle East North Africa Financial Action Task Force: www.menafatf.org ;
(b) the Egmont Group: www.egmontgroup.org ;
(c) the United Nations: www.un.org/terrorism ;
(d) the UN Counter-Terrorism Committee: www.un.org/Docs/sc/committees/1373/ ;
(e) the UN list of designated individuals: www.un.org/Docs/sc/committees/1267/1267ListEng.htm ;
(f) the Wolfsberg Group: www.wolfsberg-principles.com ; and
(g) the Association of Certified Anti-Money Laundering Specialists: www.acams.org .