



EDBS/KH/0610/2008
8th May, 2008

Chief Executive Officer/General Manager
All Islamic Bank Licensees
Manama
Kingdom of Bahrain

Dear Sir,

CBB Rulebook: Volume 2 – April 2008 Quarterly Update

The latest quarterly update to Volume 2 has now been incorporated in the website version of the Rulebook.¹ At present, only the PDF files have been fully updated. The HTML versions are gradually coming online.

Recipients who wish to update their hard copy folders should access the CBB website and print off the relevant pages for insertion into their folder. This cover letter highlights the main changes introduced this quarter. The table attached to this letter lists which pages to print off.

Module Contents Pages

As usual, the contents pages for each Module contained in Part A of Volume 2 have been updated. They now show their current issue date at the bottom right hand corner of the page: i.e. April 2008. The revised Modules are effective from the date of this letter.

Contents pages also show the current issue date for every Section of a Module. Where a Section has been modified as part of this update, then its issue date will also have been changed to April 2008. These contents pages therefore act as a summary checklist for Rulebook users.

¹ Volume 2 can be accessed, as usual, from www.cbb.gov.bh
(Home > Regulation & Supervision > Rulebook > Volume 2)

Module CM:

There are new rules concerning refunds of insurance premium and prepayments of loans (CM-7) and small amendments to the definition of “material interest” as shareholders for the purpose of write-offs (CM-6.1). There are new tougher limits for the provision of financing facilities to connected counterparties (CM-4.4).

Module LR

There is a change in BD reserve requirements for all banks to 7% and a reduction in the transaction threshold for investment business transactions for wholesale banks to \$100,000. The calculation basis for licence fees is formally inserted into the Rulebook for the first time.

Module HC

There is a new mandatory requirement for at least one independent non-executive director for all locally incorporated banks

Module OM:

A new Chapter (OM-8) and Appendix OM-1 on Basel 2 Operational Risk Requirements has formally been added. This was part of the 2007 consultation.

Module BC:

There is a new Chapter (BC-9) concerning “Investment Business”, and compliance with the Code of Best Practice on Consumer Credit and charging is now formalised.

Modules BR, PD and AU:

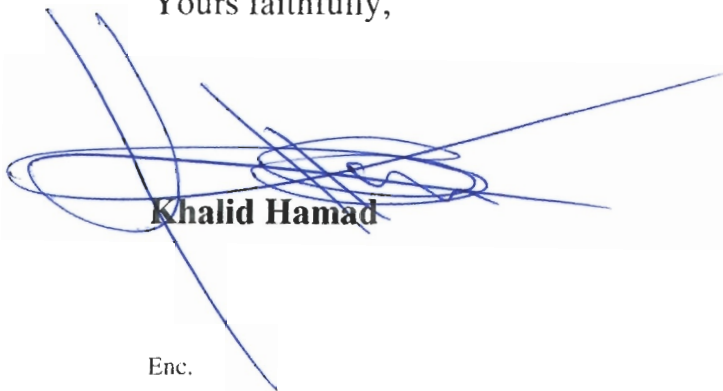
There are new Reporting Requirements and Deadlines as a result of Basel 2 related amendments and new requirement for external auditors to review PIR. The review of PIR was announced in the January Module CA and is officially added to the April AU Module. All external auditors of locally incorporated banks must conduct a review of the PIRs for the periods ended

March 2008 and June 2008 as the PIR has been completely redesigned as a result of Basel II.

Further information

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

Yours faithfully,



Khalid Hamad

Enc.

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Module Code	Summary of Changes and Printing Instructions
UG	There are no changes in this Module. Print off Table of Contents (“ToC”).
LR	Reserve requirement increased to 7%. Small changes to License Fees section re Form ALF. New lower minimum \$100,000 threshold for investment business for wholesale licensees. Print off ToC, LR-A.2, LR-1.2.16, LR-2.5.10, LR-4 AND new Form ALF.
PB	No changes. Print off ToC.
HC	Mandatory requirement for one independent non-executive director. Print off ToC, HC-A.3, HC-1.3.5
AU	New requirement for auditors to review PIR as part of Basel 2. Print off ToC, AU-A.2, and AU-3.6.
GR	New notification and approval thresholds for “controllers” in GR-5. Print off ToC and Sections GR-A.2, GR-5.1, GR-5.3 and GR-5.4.
CA	Changes to CA-A on Application, Purpose and Module History, and concerning ECAIs and PSEs and movement of existing Gearing Requirements to CA-7, and new requirement concerning review of PIR by external auditors. Print off ToC, Section CA-A, CA-1.5, CA-4.6, CA-8 and Appendices CA-6 and CA-8 (in Part B).

Me

Module Code	Summary of Changes and Printing Instructions
BC	New Chapter concerning investment business and new section concerning compliance with the Code of Best practice on Consumer Credit and Charging. Print off ToC, Section BC-A.2&A.3, BC-1.1, BC-4.8, and BC-9.
CM	New Requirements concerning Refunds of Insurance and Prepayments of Financing facilities (CM-7), guidance on write-offs (CM-6). There are also new limits for the provision of financing facilities connected counterparties. Print off ToC and Sections CM-A.2 &A.3, CM-4.4, CM-6.1 and CM-7.6.
OM	New Chapter OM-8 on Basel 2 Operational Risk Requirements, which were previously consulted in 2007. Print off ToC, Section OM-A.3, Chapter OM-8 and Appendix OM-1.
LM	No changes Print off ToC.
FC	No changes of significance (some new guidance). Print off ToC and Sections FC-A.2, FC-1.11 and FC-4.3.
BR	New Reporting Requirements and Deadlines as a result of Basel 2 and enhanced guidance on write-offs, and new requirement for auditors to review PIR . Print off ToC and Sections BR-A.2&3, BR-1.1, BR-3.1, BR-4.1 and BR-5.2.
PD	New Basel 2 Pillar 3 related Disclosure requirements. Print off ToC and Sections PD-A, PD-B, PD-1 and PD 3 or alternately reprint whole Module.
EN	No changes. Print off ToC.

M

Module Code	Summary of Changes and Printing Instructions
CP	No changes. Print off ToC.
PCD	New Module History Section and minor guidance changes. Print off ToC, PCD-A.3, PCD-1 and PCD-2.1, 2.3 and 2.4.

