



# **HIGH-LEVEL CONTROLS MODULE**



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MODULE	HC: High-level Controls
CHAPTER	HC-A: Introduction

## HC-A.1 Purpose

### *Executive Summary*

- HC-A.1.1 This Module contains requirements that have to be met by certain investment firm licensees with respect to:
- (a) The role and composition of their Boards and Board committees; and
  - (b) Related high-level controls and policies.
- HC-A.1.2 These requirements specify minimum good practice standards, with regards to the function and responsibilities of Boards, their composition and size, and required standards of attendance and frequency of meetings. It also specifies basic requirements with respect to establishing policies and procedures that address the segregation of duties, internal audit and compliance arrangements, and the firm's approach to remuneration and corporate ethics.
- HC-A.1.3 This Module supplements various provisions relating to corporate governance contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law ('Commercial Companies Law 2001'). In case of conflict, the Commercial Companies Law shall prevail. Compliance with this Module does not guarantee compliance with the Commercial Companies Law.

### *Legal Basis*

- HC-A.1.4** This Module contains the Central Bank of Bahrain ('CBB') Directive regarding High-level Control requirements applicable to investment firm licensees, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law').
- HC-A.1.5 For an explanation of the CBB's rule-making powers and different regulatory instruments, see section UG-1.1.



<b>MODULE</b>	<b>HC: High-level Controls</b>
<b>CHAPTER</b>	<b>HC-A: Introduction</b>

## HC-A.2 Module History

### *Evolution of the Module*

HC-A.2.1 This Module was first issued in July 2007, as part of the second phase of Volume 4 (Investment Business) to be released. It is dated July 2007. All subsequent changes to this Module are annotated with the end-calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

HC-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
HC-1.2	04/2008	Clarified CBB requirements for board composition.
HC-1.1.1	07/2008	Corrected that Category 1 and Category 2 investment firms must have a board of directors.
HC-1.2.3	07/2008	Expanded requirements on board composition
HC-1.2.14	07/2008	Added a new Paragraph dealing with limits on number of directorships held.
HC-B.1.2	10/2009	Amended to reflect applicability of Module to Category 3
HC-2.1.3	10/2009	Added a new Paragraph of requirements for Chief Executive/General Manager
HC-2.4.4	10/2009	Expanded requirements for Compliance function.
<b>HC-2.1</b>	<b>07/2010</b>	<b>Updated to include requirements for Chief Executive/ General Manager/ Managing Director.</b>

### *Superseded Requirements*

HC-A.2.3 This Module does not replace any regulations or circulars in force prior to July 2007.

HC-A.2.4 Further guidance on the implementation and transition to Volume 4 (Investment Business) is given in Module ES (Executive Summary).



MODULE	HC: High-level Controls
CHAPTER	HC-B: Scope of Application

## HC-B.1 License Categories

**HC-B.1.1** The contents of this Module – unless otherwise stated – apply to Category 1 and Category 2 investment firms only.

**HC-B.1.2** Category 3 investment firms – unless otherwise required by the CBB – are exempted from the requirements of this module.

HC-B.1.3 In respect of Category 3 investment firms, however, the specific requirements contained in Module HC should be considered as good practice, which it may be appropriate to apply. Notwithstanding the exemption from the specific requirements of Module HC, specified in Rule HC-B.1.2, Category 3 investment firms are nonetheless required to maintain adequate systems and controls (see Sections AU-2.6 and PB-1.10).



MODULE	HC: High-level Controls
CHAPTER	HC-B: Scope of Application

## HC-B.2 Branches, Subsidiaries and Affiliates

### *Bahraini investment firm licensees*

**HC-B.2.1** Bahraini investment firm licensees must ensure that, as a minimum, the same or equivalent provisions of this Module apply to their branches, whether located inside or outside the Kingdom of Bahrain, such that these are also subject to effective high-level controls. In instances where local jurisdictional requirements are more stringent than those applicable in this Module, the local requirements are to be applied.

**HC-B.2.2** Bahraini investment firm licensees must satisfy the CBB that regulated investment services conducted in subsidiaries and other group members are subject to the same or equivalent arrangements for ensuring effective high-level controls over their activities.

HC-B.2.3 Where an investment firm licensee is unable to satisfy the CBB that its subsidiaries and other group members are subject to the same or equivalent arrangements, the CBB will assess the potential impact of risks – both financial and reputational – to the investment firm licensee arising from inadequate high-level controls in the rest of the group of which it is a member. In such instances, the CBB may impose restrictions on dealings between the licensee and other group members. Where weaknesses in controls are assessed by the CBB to pose a major threat to the stability of the investment firm licensee, then its authorisation may be called into question.

### *Overseas investment firm licensees*

**HC-B.2.4** Overseas investment firm licensees must satisfy the CBB that the same or equivalent arrangements to those contained in this Module are in place at the head office level, and that these arrangements provide for effective high-level controls over activities conducted under the Bahrain license.

HC-B.2.5 In assessing compliance with Paragraph HC-B.2.4, the CBB will take into account regulatory requirements applicable to the head office, i.e. the company of which the Bahrain branch is part, as well as the governance and systems and controls arrangements applied to the Bahrain operation. For example, the CBB will consider whether the company as a whole has adequate compliance arrangements, and whether these extend to the Bahrain branch. With the exception of specific requirements that explicitly apply to overseas investment firm licensees, overseas investment firm licensees should consider the contents of this Chapter as guidance, in judging whether high-level controls applied to the branch satisfy HC-B.2.4.



MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

## HC-1.1 Functions and Responsibilities

### *General Requirements*

**HC-1.1.1** Category 1 and Category 2 investment firms must have a Board of Directors ('the Board'). The Board is ultimately accountable and responsible for the management and performance of the licensee.

HC-1.1.2 To discharge its responsibility effectively, a Board typically delegates various functions and tasks, for instance to Board sub-committees, management and other employees. When it delegates, the Board nonetheless retains ultimate responsibility for the performance of those functions and tasks.

### *Specific Requirements*

**HC-1.1.3** The Board must establish and maintain a statement of its responsibilities, defining its functions and tasks and those delegated to Board sub-committees and senior management. This statement must be clearly communicated to Board members and senior management.

HC-1.1.4 For the purposes of HC-1.1.3, the CBB expects firms to maintain detailed mandates for Boards and sub-committees. These mandates should be reviewed periodically by the Board. Depending on the size and complexity of the licensee concerned, the CBB also expects the Board to operate appropriate sub-committees, such as an Audit Committee.

**HC-1.1.5** The Board must approve and review at least annually the licensee's:

- (a) Strategic plans;
- (b) Management structure and responsibilities; and
- (c) Systems and controls framework (including its policies and procedures).

**HC-1.1.6** The Board must also regularly review:

- (a) The licensee's implementation of its strategy and operational performance;
- (b) The performance of its executive management; and
- (c) The level of risk.

**HC-1.1.7** The Board must set out clearly and review on a regular basis who has authority to commit the licensee to contractual obligations. The Board must set a materiality threshold so that contractual obligations above this set threshold are regularly reported to the Board. In setting the materiality threshold, the Board must consider the financial impact the contractual obligations may have in relation to its capital.



MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

## HC-1.1 Functions and Responsibilities (continued)

**HC-1.1.8** The Board must have effective policies and processes in place to address its members' potential or actual conflicts of interest, including matters such as:

- (a) Related party transactions;
- (b) The misuse of assets belonging to the licensee; and
- (c) The use of privileged information for personal advantage ('insider trading').

**HC-1.1.9** Board members must declare annually in writing all of their interests (and those of their family) in other enterprises or activities (whether as a Director, shareholder, senior executive or other form of participation) to the Board (or appropriate Board sub-Committee). Board members must also absent themselves from any discussion or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject, transaction or proposed transaction where there is a potential conflict of interest.

**HC-1.1.10** The Board and its members must act with honesty, integrity, due skill and care, and in the best interests of the licensee, its shareholders and clients.

HC-1.1.11 In assessing compliance with Paragraph HC-1.1.10, the CBB will take into account all actions of the Board and its members. The interest of the licensee includes the licensee's continued compliance with all relevant rules and regulations, and the interests of employees, clients and other stakeholders. The interest of shareholders includes the current and future value of the licensee, its status as a going concern, transparency and disclosure of information to the market. The interest of clients includes ensuring that the licensee fulfils its obligations under its terms of business and treats all clients fairly and pays equal regard to the interests of all clients.

**HC-1.1.12** The Board must oversee the process of disclosure to all stakeholders. The Board must ensure that the licensee's communications are fair, transparent, comprehensive and timely.

HC-1.1.13 In assessing the licensee's strategic plans (see Paragraph HC-1.1.5), the CBB would expect the Board to address the licensee's current and future aspirations with respect to its position in the market place, its size, products, value and other key aspirations that would be considered important by investors. Furthermore, the Board should demonstrate that it is able to identify proactively and understand the significant risks that the licensee faces in achieving its business objectives. A description of the licensee's strategy should be included in the annual financial statements. See also Module PD (Public Disclosure).





<b>MODULE</b>	<b>HC: High-level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.1 Functions and Responsibilities (continued)**

- HC-1.1.14 In assessing the management framework (see Paragraph HC-1.1.5), the CBB would expect the Board to have effective policies and processes in place for:
- (a) Ensuring a formal and transparent Board nomination process;
  - (b) Appointing senior managers, and ensuring that they have the necessary integrity, technical and managerial competence, and experience;
  - (c) Overseeing succession planning, and minimizing undue reliance on key individuals;
  - (d) Reviewing key senior management and Board remuneration packages and ensuring such packages are consistent with the corporate values and strategy of the licensee and encourage prudent risk taking;
  - (e) Monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring appropriate resources are available; and
  - (f) Approving budgets and reviewing performance against those budgets.
- HC-1.1.15 In assessing the systems and controls framework (see Paragraph HC-1.1.5), the CBB would expect the Board to be able to demonstrate that the licensee's operations, individually and collectively:
- (a) Are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the licensee's activities. These should pro-actively identify as well as monitor risk. The systems should produce information on a timely basis, and in a form and quality appropriate to the needs of the different recipients;
  - (b) Are supported by an appropriate control environment. The risk management and financial reporting functions must be independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas; and
  - (c) Make effective use of the work of internal and external auditors. The internal audit function should be independent of the senior management, reporting either to the Board or its Audit committee (where applicable). The Board or Audit Committee should ensure that the external audit firm and its partners are truly independent of the licensee and have no financial or other relationship with the licensee. Audit findings should be used as an independent check on the information received from management about the licensee's operations and performance and the effectiveness of internal controls.



<b>MODULE</b>	<b>HC: High-level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.2 Composition**

**HC-1.2.1** The Memorandum and Articles of Association of Bahraini investment firm licensees must adequately set out procedures for the appointment, removal and retirement of Directors.

HC-1.2.2 These should, amongst other things, include procedures for removing Directors in case of non-attendance or other failure to discharge properly their responsibilities as company Directors.

**HC-1.2.3** To fulfil its responsibilities outlined in Section HC-1.1, the Board of Bahraini investment firm licensees must periodically assess its composition and size and, where appropriate, reconstitute itself and its committees by selecting new Directors to replace long-standing members or those members whose contributions to the licensee or its committees is not adequate.

HC-1.2.4 To demonstrate compliance with Rule HC-1.2.3, the Board should be able to demonstrate that it regularly considers (e.g. every one or two years) the mix of executive, non-executive and independent non-executive Directors, and skills and experience, that it requires. See also Paragraphs HC-1.2.5 to HC-1.2.9 below.

**HC-1.2.5** The Board must ensure that collectively it has sufficient expertise to understand the important issues relating to the operation and control of its company.

HC-1.2.6 It is not expected that every Board member is proficient in all areas, but collectively the Board is expected to have the required expertise. There should also be agreed upon procedures by the Board for Directors to take independent advice if necessary at the licensee's expense. CBB also expects Board members to undertake relevant training on a regular basis to help them fulfill their responsibilities as Directors.

**HC-1.2.7** The Chairman of the Board of Bahraini investment firm licensees must be a non-executive Director. The Chairman therefore may not act as Chief Executive.

HC-1.2.7A A non-executive Director is a Director who is not involved in the day-to-day management of the licensee and is not an employee of the licensee.

**HC-1.2.8** The Board must ensure that it has sufficient non-executive and independent non-executive Directors (in addition to its Chairman), in order to provide sufficient independent scrutiny of management. The licensee's annual report must identify Directors as executive, non-executive, or independent non-executive, and provide the definition of independence used.



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CHAPTER	HC-1: The Board

## HC-1.2 Composition (continued)

HC-1.2.9 Amongst other things, the Board's composition should ensure that there are sufficient non-executive Directors for the Board (and its sub-Committees where relevant) to address tasks where there is a potential for conflict of interest or there is a need for impartiality (such as audit or remuneration issues)

**HC-1.2.10** In the case of a Bahraini investment firm licensee, which is part of an overseas group, where there is sufficient independent scrutiny of the operations of the firm on a group wide basis, the CBB will consider exempting the licensee from the independence requirements of Paragraph HC-1.2.8.

HC-1.2.11 In assessing independence, the CBB will take into account whether the person concerned is (or has been):

- (a) A controller or representative of the controller of the licensee (see Chapter GR-5 for the definition of controller);
- (b) A business partner or first-degree relative of an employee or of a Board member of the licensee concerned, or of a member of the group of which the licensee is a member;
- (c) A professional adviser to the licensee or the group of which it is a member; and
- (d) Free of any significant contractual or business relationship with the licensee, or of any of the members of a group of which it is a member.

HC-1.2.12 In assessing the number of independent non-executive Directors, the CBB will seek to ensure that independent judgement is applied to matters such as Board remuneration and audit issues.

HC-1.2.13 The appointment of Board members is conditional on the approval of the CBB. (See Section AU-1.2).

**HC-1.2.14** A Board member may have a maximum of two Directorships of financial institutions inside Bahrain. However, two Directorships of licensees within the same category of licensees would not be permitted. Investment firm licensees may approach the Central Bank for exemption from this limit where the Directorships concern financial institutions within the same group.



MODULE	HC: High-level Controls
CHAPTER	HC-1: The Board

## HC-1.3 Meetings and Attendance

**HC-1.3.1** The Board must meet sufficiently often to enable it to discharge its responsibilities effectively, taking into account the licensee's scale and complexity.

HC-1.3.2 The CBB expects that the scale and complexity of most licensees will require meetings to be held at least quarterly. For the largest, most complex licensees, more frequent Board meetings may be more appropriate.

**HC-1.3.3** Board rules must require members to step down if they are not actively participating in Board meetings.

HC-1.3.4 The CBB expects Board members who fail to attend at least three-quarters of all Board meetings in any twelve-month period to step down, unless the Board is able to satisfy the CBB that there are valid reasons for the Director concerned to remain a Board member.

**HC-1.3.5** At least half the Board meetings of Bahraini investment firm licensees in any twelve-month period must be held in the Kingdom of Bahrain.

**HC-1.3.6** The Board must be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The Board must also maintain adequate records of its meetings, such that key decisions and how they are arrived at can be traced.



MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.1 Chief Executive / General Manager / Managing Director

**HC-2.1.1** Investment firm licensees must appoint a person to undertake the function of Chief Executive, General Manager or Managing Director, as appropriate.

**HC-2.1.2** A Licensee may appoint a Director on the Board to undertake the responsibility of the Chief Executive or General Manager, i.e a Managing Director, in which case the appointment of a Chief Executive or General Manager in addition to the Managing Director will not be permitted.

**HC-2.1.3** The Chief Executive, General Manager or Managing Director (as appropriate), is a controlled function, and the person nominated to that post therefore requires prior CBB approval (see Module AU (Authorisation)).

**HC-2.1.4** The Chief Executive, General Manager or Managing Director of the licensee:

- (a) Should be fully responsible for the executive management and performance of the licensee, within the framework of delegated authorities set by the Board;
- (b) Must devote full-time working hours to the licensee; and
- (c) Must not be employed at any other firm.

**HC-2.1.5** The Chairman of the Board may not undertake any executive role, including that of Chief Executive, General Manager or Managing Director.

**HC-2.1.6** The Chief Executive Officer or Managing Director are not permitted, at any time to assume Chairmanship or Deputy Chairmanship of the Board.

**HC-2.1.7** Residency requirements apply to Chief Executives, General Managers or Managing Directors: see Section AU-2.2.



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## HC-2.2 Segregation of Duties

**HC-2.2.1** Investment firm licensees must maintain clearly documented and communicated staff responsibilities and reporting lines.

HC-2.2.2 For the purposes of Rule HC-2.2.1, investment firm licensees should maintain and document their delegated authority structure as well as written terms of reference for staff positions.

**HC-2.2.3** Investment firm licensees must maintain an organisational structure that minimises the risk of conflicts of interest arising.

HC-2.2.4 For the purposes of Rule HC-2.2.3, the CBB would expect investment firm licensees to separate front and back office functions, as well as proprietary trading and client trading/advisory functions.



MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.3 Internal Audit

**HC-2.3.1** Bahraini investment firm licensees must establish an internal audit function to monitor the adequacy of their systems and controls.

HC-2.3.2 The CBB would normally expect larger investment firm licensees to maintain the internal audit function within the organisation (or at least to be provided from within the licensee's group, where relevant, providing this doesn't impair the level of internal audit scrutiny applied to the licensee). The CBB will however consider allowing small investment firm licensees to outsource part or all of their internal audit function to third party providers.

**HC-2.3.3** Where investment firm licensees outsource part or all of their internal audit function, the outsourcing arrangements must provide for an adequate level of scrutiny of the licensee, and must comply with the requirements contained in Chapter RM-7. A licensee cannot outsource its internal audit function to its external auditors.

HC-2.3.4 Prior approval from the CBB is required for significant outsourcing arrangements, including all outsourcing of internal audit. Note that in all such cases, the licensee retains ultimate responsibility for the adequacy of its outsourcing function, and is required to identify the person within the licensee responsible for internal audit: this person should be an approved person (see Section AU-1.2 and Chapter RM-7).

**HC-2.3.5** Internal audit functions must have terms of reference that clearly indicate:

- (a) The scope and frequency of audits;
- (b) Reporting lines; and
- (c) The review and approval process applied to audits.

HC-2.3.6 Paragraph HC-2.3.5 applies irrespective of whether the internal audit function is outsourced. Where it is outsourced, the CBB would expect to see these matters addressed in the contract with the outsourcing provider.

**HC-2.3.7** Internal audit functions must report directly to the Audit committee or, where none exists, to the Board. They must have unrestricted access to all the appropriate records of the investment firm licensee. They must have open and regular access to the Audit Committee, the Board, the Chief Executive, and the licensee's external auditors.



MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.3 Internal Audit (continued)

**HC-2.3.8** Internal audit functions must have adequate staff levels with appropriate skills and knowledge, such that they can act as an effective challenge to the business. Where the function is not outsourced, the head of function should be a senior and experienced employee. Internal audit functions must not perform other activities that compromise their independence.

HC-2.3.9 The CBB would expect to see in place a formal audit plan that:

- (a) Is reviewed and approved at least annually by the Audit Committee or, where none exists, the Board;
- (b) Is risk-based, with an appropriate scoring system; and
- (c) Covers all material areas of a licensee's operations over a reasonable timescale.

HC-2.3.10 Internal Audit reports should also be:

- (a) Clear and prioritised, with action points directed towards identified individuals;
- (b) Timely; and
- (c) Distributed to the Audit Committee or Board and appropriate senior management.

HC-2.3.11 Investment firm licensees should also have processes in place to deal with recommendations raised by internal audit to ensure that they are:

- (a) Dealt with in a timely fashion;
- (b) Monitored until they are settled; and
- (c) Raised with senior management if they have not been adequately dealt with.





MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.4 Compliance

**HC-2.4.1** Investment firm licensees must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements in the Kingdom's legislation and those set by the CBB, and those established under any other statute or regulator to which they are subject.

HC-2.4.2 Depending on the nature, scale and complexity of its business, an investment firm licensee should consider having a separate compliance function. A compliance function should:

- (a) Document its organisation and responsibilities;
- (b) Be appropriately staffed with competent individuals;
- (c) Have unrestricted access to the licensee's relevant records; and
- (d) Have ultimate recourse to the Board.

**HC-2.4.3** Investment firm licensees must designate an employee, of appropriate standing and resident in Bahrain, as Compliance Officer. The duties of the Compliance Officer include:

- (a) Having responsibility for oversight of the licensee's compliance with the requirements of the CBB; and
- (b) Reporting to the licensee's Board in respect of that responsibility.

HC-2.4.4 The Compliance Officer is a controlled function and the requirements relating to approved persons must be met (see Chapter AU-1.2). If the scale and nature of the licensee's operations are limited, then the individual who performs the function of Compliance Officer may also take on other responsibilities, providing this does not create a potential conflict of interest. The compliance function may not be combined with the internal audit function or any operational function as they are incompatible and may create a conflict of interest.



MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.5 Remuneration Policies

**HC-2.5.1** An investment firm licensee's remuneration policies (including incentives, bonuses and other rewards), must not encourage excessive short-term or risky behaviour.

HC-2.5.2 Levels of remuneration should be sufficient to attract, retain and motivate Directors and employees of the quality required to run the licensee successfully, but a licensee should avoid paying more than is necessary for this purpose. Where remuneration is structured so as to link rewards to corporate and individual performance, criteria should avoid excessive focus on short-term profitability measures, without due regard to the longer-term consequences of actions taken.

**HC-2.5.3** The review of Directors' remuneration must be a standing item on the investment firm licensee's Annual General Meeting agenda, and must be considered by shareholders at every Annual General Meeting. Directors' remuneration (including pension and severance arrangements) and bonuses must be clearly disclosed in the annual financial statements.

HC-2.5.4 Directors' remuneration should also comply with all applicable laws, such as Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law.



MODULE	HC: High-level Controls
CHAPTER	HC-2: Other High-level Controls

## HC-2.6 Corporate Ethics

**HC-2.6.1** An investment firm licensee's Board must establish and disseminate to all employees and appointed representatives of the licensee a corporate code of conduct.

**HC-2.6.2** The code of conduct must establish standards by giving examples or expectations as regards:

- (a) Honesty;
- (b) Integrity;
- (c) The avoidance or disclosure of conflicts of interest;
- (d) Maintaining confidentiality;
- (e) Professionalism
- (f) Commitment to the law and best practises; and
- (g) Reliability.

**HC-2.6.3** The Board must establish and disseminate to employees and appointed representatives policies and processes for the identification, reporting and prevention or management of potential conflicts of interest, including matters such as:

- (a) Related party transactions;
- (b) The misuse of the licensee's assets; and
- (c) The use of privileged information for personal advantage ('insider trading').

HC-2.6.4 Any transaction in which Board members or any member of management have potential conflicts of interest should either be proscribed or require formal documented approval by the Board, with measures taken to manage those conflicts.

**HC-2.6.5** The Board must ensure that policies and procedures are in place to ensure that necessary customer confidentiality is maintained.



MODULE	HC: High-level Controls
CHAPTER	HC-3: Annual Certification

## HC-3.1 Annual Board Review and Certification

### HC-3.1.1

The Board must assess and document each year whether the internal corporate governance processes that it has implemented have successfully achieved their objectives, and consequently whether the Board has fulfilled its responsibilities for directing and monitoring the overall conduct of the licensee's affairs.

### HC-3.1.2

The results of the review referred to in Paragraph HC-3.1.1 must be summarized in a written certification, to be signed by all Board members, and sent to the CBB within 3 months of the financial year-end of the licensee. The Board must report any material deficiencies identified during the review, along with an action plan and timescales for their correction.

#### HC-3.1.3

The Board certification comprises a prescribed standard statement, to be signed by all Board members, attached to which should be a summary of the steps the Board has taken in carrying out the review; a summary of the results of that review; and a summary action plan (with timescales) for addressing any identified material deficiencies.

#### HC-3.1.4

The prescribed standard statement referred to in Paragraph HC-3.1.3 is as follows:

“We, the Directors of [insert licensee name], do hereby confirm that we have undertaken the review required under Rule HC-3.1.1 of Volume 4 of the CBB Rulebook. The scope of this review was in accordance with the requirements specified in Section HC-3.2 of Volume 4 of the CBB Rulebook.

The summary results of this review, setting out (i) the actions taken to carry out this review; (ii) any material deficiencies identified as a result of the review; and (iii) an action plan and timescales for the correction of any such deficiencies (where appropriate), are attached.

We understand that it is a breach of our licensing conditions to provide false or misleading information to the CBB, or to withhold material information that may reasonably be expected to be provided to the CBB.

[signed and dated by all Board Directors]”



MODULE	HC: High-level Controls
CHAPTER	HC-3: Annual Certification

## HC-3.2 Scope of the Review

- HC-3.2.1 The Board's review should cover the following specific matters:
- (a) That the Board has reassessed the licensee's objectives and plans, and has reviewed the licensee's corporate strategy document;
  - (b) That the Board has reassessed the licensee's overall risk profile, and its mapping of risks and the control environment put in place to meet those risks. The Board must comment whether the control environment remains effective and appropriate;
  - (c) That the Board has assessed the licensee's internal controls, to confirm that these are based on established policies and procedures approved by the Board and provide reasonable assurance of the integrity and reliability of its financial records;
  - (d) That the Board has assessed whether adherence to established internal limits and controls was continuously monitored;
  - (e) That the Board has assessed that all new (or material changes to) significant policies, procedures and products introduced by the licensee since the last Board certification were appropriately reviewed and approved at the time;
  - (f) That the Board has assessed that management and staff have complied with the licensee's corporate code of conduct (see Section HC-2.5); and
  - (g) That in the period under review, the Board had received and reviewed the external auditor's management letter within six months of the (previous) financial year end, together with comments on the letter and proposed actions, from the licensee's audit committee and senior management.
- HC-3.2.2 With respect to HC-3.2.1 (g), a Director's certificate received (for example) no later than 31 March 2004, covering the year ending 31 December 2003, would need to certify that the management letter for the year ending 31 December 2002 was received and reviewed by the Board by 30 June 2003.