



ANTI-MONEY LAUNDERING AND COMBATING OF FINANCIAL CRIME MODULE



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MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-A: Introduction

AML-A.1 Purpose

Executive Summary

AML-A.1.1 This Module is a comprehensive framework of rules and guidance aimed at combating money laundering and terrorist financing and applies to all Capital Market Service Providers. 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), that are relevant to Capital Market Service Providers. It also helps implement IOSCO guidance in this area. The Module also contains measures relating to the combating of fraud in the capital market.

AML-A.1.2 The Module requires Capital Market Service Providers 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 Capital Market Service Providers monitor transactions and fulfil their reporting obligations under Bahrain Law and this Module.

Legal Basis

AML-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 Capital Market Service Providers.

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



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-A: Introduction

AML-A.2 Module History

Evolution of Module

AML-A.2.1 This Module was first issued in October 2010. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change is made; Chapter UG-3 provides further details on Rulebook maintenance and version control.

AML-A.2.2 Prior to the introduction of this Module, the CBB had issued various regulatory instruments containing requirements covering different aspects of financial crime. The CBB issued Ministerial Order No. 1 of 2004 with Respect to Directives Relating to the Prevention & Prohibition of Money Laundering at the Bahrain Stock Exchange (BSE) and this Order was applicable to the BSE, issuers of Securities, brokerage firms and offices, registration offices, issue underwriters, establishments accredited with receiving money relating to the subscription of Securities, custodians of Securities, banks accredited for clearance of transactions carried out at the BSE, dealers in Securities, and all other entities concerned with dealing in Securities.

AML-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

Superseded Requirements

AML-A.2.4 This Module supersedes the following provisions contained in Circulars or other regulatory instruments:

Circular/other references	Provision	Subject
Resolution No. 1 of 2004	All	In respect of the Directives Relating to the Prevention and Prohibition of Money Laundering at the Bahrain Stock Exchange



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-A: Introduction

AML-A.3 Interaction with Other Modules

AML-A.3.1 All Capital Market Service Providers must comply with all the other relevant Modules in Volume 6 in addition to other applicable laws, rules and regulations.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-B: Scope of Application

AML-B.1 Scope of Application

AML-B.1.1

This Module contains the CBB's Directive relating to Anti-Money Laundering and Combating of Financial Crime and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive under this Module is applicable to all Capital Market Service Providers and relevant Persons, including but not limited to issuers of Securities or any Person acting on their behalf, licensed exchanges, licensed market operators, licensed clearing houses, depositories, investment firms, collective investment undertakings, business trusts, listed companies, any Person acting for or on behalf of listed companies, Persons accredited with receiving money relating to the subscription of Securities, custodian of Securities, settlement banks, dealers in Securities, share registrars, lead managers, underwriters, professional advisors, listing agents, auditors, financial analysts, credit rating agencies and any other Person concerned with dealing in Securities, irrespective of whether such Person is a Capital Market Service Provider or not. These rules are issued by way of a legally-binding Directive.

AML-B.1.2

Capital Market Service Providers that are subsidiaries of an overseas based group may apply additional AML/CFT policies and procedures, provided they satisfy the minimum requirements contained in this Module.

AML-B.1.3

A Capital Market Service Provider who is not a CBB licensee is exempt from Chapter AML-10 due to the limited nature of their business.

AML-B.1.4

The requirements of this Module are in addition to and supplement 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 (including financial services firms such as Capital Market Service Providers). All Capital Market Service Providers 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 6 Capital Markets), 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').



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-B: Scope of Application

AML-B.2 Overseas Subsidiaries and Branches

AML-B.2.1

Capital Market Service Providers 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. Capital Market Service Providers must pay particular attention to procedures in branches or subsidiaries in countries that do not or insufficiently apply the FATF Recommendations and Special Recommendations.

AML-B.2.2

Where another jurisdiction's laws or regulations prevent a Capital Market Service Provider (or any of its foreign branches or subsidiaries) from applying the same standards contained in this Module or higher, the Capital Market Service Provider must immediately inform the CBB in writing.

AML-B.2.3

In such instances, the CBB will review alternatives with the Capital Market Service Provider. Should the CBB and the Capital Market Service Provider be unable to reach agreement on the satisfactory implementation of this Module in a foreign subsidiary or branch, the Capital Market Service Provider may be required by the CBB to cease the operations of the subsidiary or branch in the foreign jurisdiction in question.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-B: Scope of Application

AML-B.3 Definitions

For the purpose of this Module, the following definitions shall apply:

AML-B.3.1 “Capital Market Service Provider” means any financial institution or Person involved in providing by itself or as agent, any activity specified under Article 80 of the CBB Law.

AML-B.3.2 “CMSD” means the Capital Markets Supervision Directorate of the Central Bank of Bahrain.

AML-B.3.3 “Money Laundering” is as defined in Decree Law No. 4 of 2001 and Decree Law 54 of 2006 with Respect to the Prohibition of the Laundering of Money.

AML-B.3.4 “Person” means unless the context requires otherwise, a natural or legal Person.

AML-B.3.5 “Politically Exposed Person” means 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 immediate family members (i.e. spouse and children, including step-children or adopted children) 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.

AML-B.3.6 “Relevant Authorities” means for the purpose of this Module, the Authorities listed in section AML-4.4.

AML-B.3.7 “Securities” means shares or bonds issued by shareholding companies, government debt instruments and the following financial instruments:

- (a) Shares in companies and other Securities equivalent to shares in companies or other entities, and depositary receipts in respect of shares;
- (b) Bonds or other forms of debt, including depositary receipts in respect of such Securities;
- (c) Warrants;
- (d) Units, rights or interests (however described) of the participants in a collective investment scheme;
- (e) Options, futures and any other derivative contracts relating to commodities that must be settled in cash, or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- (f) Options, futures and any other derivative contract relating to commodities that can be physically settled;



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
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AML-B.3 Definitions (continued)

(g) Units to Real Estate Investment Trusts (REIT);
(h) Index tracking products including Islamic indices;
(i) Any other financial instrument approved as a financial instrument by the CBB for the purpose of trading such instrument on an exchange; and
(j) Islamic Securities, being those financial instruments that are Shari'a compliant.

AML-B.3.8 “Self-Regulatory Organization (SRO)” means a self-regulatory organization, being a Licensed Exchange, Licensed Market Operator or a Licensed Clearing House under Module MAE and/or Module CSD respectively.

AML-B.3.9 “Suspicious or Extraordinary Transactions” means any transactions which have direct or indirect relevance to the acts provided for under Article (2.1) of the Prevention and Prohibition of the Laundering of Money Law (4 of 2001), or which by its nature contradicts with the commercial or personal activities of the Persons involved in the transactions, and which the CBB may consider suspicious or extraordinary as determined from its extraordinary size, its recurrence, its nature, the surrounding circumstances and conditions, its extraordinary type which does not carry any clear economic or legal objective, or if the activity of the Persons involved in the transaction or transactions is not consistent with their normal course of business, or if the domicile of such Persons is located in countries which do not apply sufficient measurements for the Prevention and Prohibition of Money Laundering.

AML-B.3.10 “Terrorism Acts” is as defined in Decree Law No. 58 of 2006 with respect to the Protection of Society from Terrorism Activities.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.1 General Requirements

Verification of Identity and Source of Funds

AML-1.1.1

Capital Market Service Providers 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 Capital Market Service Provider's Board of Directors. They must be strictly adhered to.

AML-1.1.2

Capital Market Service Providers must implement the customer due diligence measures outlined in Chapter AML-1 when:

- (a) Carrying-out one-off or occasional transactions above BD6,000, or where several smaller transactions that appear to be linked fall above this threshold;
- (b) Establishing business relations with a new or existing customer;
- (c) A change to the signatory or beneficiary of an existing account or business relationship is made;
- (d) Customer documentation standards change substantially;
- (e) The Capital Market Service Provider has doubts about the veracity or adequacy of previously obtained customer due diligence information;
- (f) A significant transaction takes place (as per rule AML-2.2.3);
- (g) There is a material change in the way that an account is operated or in the manner in which the business relationship is conducted; or
- (h) There is a suspicion of Money Laundering or terrorist financing.

AML-1.1.3

For the purposes of this Module, 'customer' includes counterparties such as financial markets counterparties, except where Capital Market Service Providers are acting as principals where simplified due diligence measures may apply. These simplified measures are set out in section AML-1.10.

AML-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 AML-1.2. Enhanced requirements apply under certain high-risk situations: these requirements are contained in sections AML-1.3 to AML-1.7 inclusive. Additional requirements apply where a Capital Market Service Provider is relying on a professional intermediary to perform certain parts of the customer due diligence process: these are detailed in section AML-1.8. Simplified customer due diligence measures may apply in defined circumstances: these are set out in section AML-1.10.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.1 General Requirements (continued)

Verification of Third Parties

AML-1.1.5

Capital Market Service Providers must obtain a signed statement from all new customers (or for one-off transactions above the BD6,000 threshold) 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.

AML-1.1.6

Where a customer is acting on behalf of a third party, the Capital Market Service Provider 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 Capital Market Service Provider 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.

AML-1.1.7

Capital Market Service Providers 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.

AML-1.1.8

Where capital market 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, Capital Market Service Providers 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 business relations, the Capital Market Service Provider must establish the identity of that third party, as well as the person conducting the business.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.1 General Requirements (continued)

Anonymous and Nominee Accounts

AML-1.1.9

Capital Market Service Providers must not establish or keep anonymous accounts or accounts in fictitious names. Where Capital Market Service Providers 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 Capital Market Service Provider and verified by it in accordance with the requirements specified in this Chapter.

Timing of Verification

AML-1.1.10

Capital Market Service Providers must not commence a business relationship or undertake an occasional transaction (above the threshold) with a customer before completion of the relevant customer due diligence ('CDD') measures specified in Chapter AML-1. 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

AML-1.1.11

Where a Capital Market Service Provider is unable to comply with the requirements specified in Chapter AML-1, it must consider whether to terminate the relationship or not proceed with the transaction. If it proceeds with the transaction (to avoid tipping off the customer), it should additionally consider whether it should file a Suspicious Transaction Report.

AML-1.1.12 See also Chapter AML-4, which covers the filing of Suspicious Transaction Reports.

AML-1.1.13 The CBB will monitor the application of these requirements to Capital Market Service Providers' existing customer base.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.2 Face-to-Face Business

Natural Persons

AML-1.2.1

If the customer is a natural Person, Capital Market Service Providers must obtain and record the following information (in hard copy or electronic form) before providing capital market services, as described in paragraph AML-1.1.2:

- (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 Capital Market Service Provider;
- (k) Signature of the customer(s);
- (l) Source of funds; and
- (m) Source of Securities.

AML-1.2.2

See the Guidance Notes (filed under Supplementary Information in Part B of Volume 6) for further information on source of funds (rule AML-1.2.1 (l)) and CDD requirements for Bahrain residents (rule AML-1.2.1 (c) & (f)).

AML-1.2.3

Capital Market Service Providers must verify the information in rule AML-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 a CBB licensee, or some form of official correspondence or official identification card, such as CPR, from a public/governmental authority, or record of home visit by an official of the Capital Market Service Provider; and
- (c) Where appropriate, direct contact with the customer by phone, letter or email to confirm relevant information, such as residential address information.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.2 Face-to-Face Business (continued)

AML-1.2.4

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

AML-1.2.5

Identity documents which are not obtained by an authorised official of the Capital Market Service Provider in original form (e.g. due to a customer sending a copy by post following an initial meeting) must instead be certified (as per rule AML-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.

AML-1.2.6

The individual making the certification under rule AML-1.2.5 must give clear contact details (e.g. by attaching a business card or company stamp). The Capital Market Service Provider 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)

AML-1.2.7

If the customer is a legal entity or a legal arrangement such as a company or trust, the Capital Market Service Provider 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 and status;
- (d) Registered address and trading address (including a branch where applicable);
- (e) Objectives and type of business activity;
- (f) Date and place of incorporation or establishment;



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.2 Face-to-Face Business (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 Capital Market Service Provider;
- (k) Source of funds; and
- (l) Legal representative, such as Trustees or trusts.

AML-1.2.8

The information provided under rule AML-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) Partnership agreement;
- (c) Board resolution seeking the capital market services (only necessary in the case of private or unlisted companies);
- (d) Identification documentation of the authorised signatories of the account;
- (e) Copy of the latest financial report and accounts, audited where possible (audited copies do not need to be certified);
- (f) List of Persons authorised to do business on behalf of the company and in the case of the opening of an account, a Board resolution (or other applicable document) authorising the named Persons to operate the account (resolution only necessary for private or unlisted companies); and
- (g) Memorandum and Articles of Association.

AML-1.2.9

Documents obtained to satisfy the requirements in rule AML-1.2.8 above must be certified in the manner specified in rules AML-1.2.4 to AML-1.2.6.

AML-1.2.10

The documentary requirements in rule AML-1.2.8 above do not apply in the case of listed companies from countries which are members of FATF/GCC: see section AML-1.8 below. Also, the documents listed in rule AML-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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.2 Face-to-Face Business (continued)

AML-1.2.11

Capital Market Service Providers must also obtain and document the following due diligence information. These due diligence requirements must be incorporated in the Capital Market Service Providers' 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 or Securities, the ultimate provider of funds or Securities (if different), and the ultimate controller of the funds or Securities (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 Capital Market Service Provider has reasonable grounds for questioning the authenticity of the information supplied by a customer, conduct additional due diligence to confirm the above information.

AML-1.2.12 For the purposes of rule AML-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, if they are listed); 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.2 Face-to-Face Business (continued)

AML-1.2.13 In cases where a Capital Market Service Provider is providing investment management services to a regulated mutual fund, and is not responsible for 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 section AML-1.7 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 Capital Market Service Provider should consider terminating its relationship with the fund.



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CHAPTER	AML-1: General Requirements

AML-1.3 Enhanced Customer Due Diligence: General Requirements

AML-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.

AML-1.3.2

The additional information referred to in rule AML-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 Capital Market Service Provider);
- (c) CBB licensee's reference and contact with the concerned Capital Market Service Provider 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.

AML-1.3.3

In addition to the general rule contained in rule AML-1.3.1 above, special care is required in the circumstances specified in sections AML-1.4 to AML-1.8 inclusive.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies

AML-1.4.1

Capital Market Service Providers must establish specific procedures for verifying customer identity where no face-to-face contact takes place.

AML-1.4.2

Where no face-to-face contact takes place, Capital Market Service Providers must take additional measures (to those specified in section AML-1.2), in order to mitigate the potentially higher risk associated with such business. In particular, Capital Market Service Providers 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.

AML-1.4.3

There are a number of checks that can provide a Capital Market Service Provider 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.

AML-1.4.4

Capital market services provided via post, telephone or internet pose greater challenges for customer identification and AML/CFT purposes. Capital Market Service Providers must establish procedures to prevent the misuse of technological developments in Money Laundering or terrorist financing schemes. Capital Market Service Providers must also ensure that they comply with any e-commerce laws and/or CBB Modules issued from time-to-time. Specifically, Capital Market Service Providers which provide screen based trading or online services to their customers must set-up programmes or systems to highlight unusual transactions to enable the Capital Market Service Providers to report all such transactions.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

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

AML-1.5.1

Capital Market Service Providers 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. Capital Market Service Providers must utilise publicly available databases and information to establish whether a customer is a PEP.

AML-1.5.2

Capital Market Service Providers 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.

AML-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).

AML-1.5.4

Politically Exposed Persons' means 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 immediate family members (i.e. spouse and children, including step-children or adopted children) 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

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

AML-1.6.1

Capital market services must not be provided to charitable funds and religious, sporting, social, cooperative and professional societies, until an original certificate authenticated by the relevant Ministry confirming the identities of those purporting to act on their behalf (and authorizing them to obtain the said service) has been obtained. For clubs and societies registered with the General Organisation for Youth and Sports (GOYS), Capital Market Service Providers must contact GOYS to clarify whether the account may be opened in accordance with the rules of GOYS.

AML-1.6.2

Capital Market Service Providers are reminded that clubs and societies registered with GOYS may only have one account with banks in Bahrain.

AML-1.6.3

Charities should be subject to enhanced transaction monitoring by Capital Market Service Providers. Capital Market Service Providers should develop a profile of anticipated account activity (in terms of payee countries and recipient organizations in particular).

AML-1.6.4

Capital Market Service Providers 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 Unit (see section AML-4.4 for contact address), giving details of the amount transferred, account name, number and beneficiary name account and bank details. Capital Market Service Providers must ensure that such transfers are in accordance with the spending plans of the charity (in terms of amount, recipient and country).

AML-1.6.5

Article 20 of Decree Law No. 21 of 1989 (issuing the Law of Social and Cultural Societies and Clubs and Private Organisations Operating in the Area of Youth and Sport and Private Institutions) provides that Capital Market Service Providers may not accept or process any incoming or outgoing wire transfers from or to any foreign country on behalf of charity and non-profit organisations licensed by the Ministry of Social Development, until an official letter by the Ministry authorising the receipt or remittance of the funds has been obtained by the concerned Capital Market Service Provider.

AML-1.6.6

The receipt of a Ministry letter mentioned in rule AML-1.6.5 above does not exempt the concerned Capital Market Service Provider from conducting normal CDD measures as outlined in other parts of this Module.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.7 Enhanced Due Diligence: 'Pooled Funds'

AML-1.7.1

Where Capital Market Service Providers receive pooled funds managed by professional intermediaries (such as investment and pension fund managers, stockbrokers and lawyers or authorized money transferors), they must apply CDD measures contained in section AML-1.8 to the professional intermediary. In addition, Capital Market Service Providers must verify the identity of the beneficial owners of the funds where required as shown in rules AML-1.7.2 and AML-1.7.3 below.

AML-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 Capital Market Service Provider and their identity verified in accordance with the requirements in section AML-1.2.

AML-1.7.3

For accounts held by intermediaries, where such funds are co-mingled, the Capital Market Service Provider 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 authorized 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 bank has undertaken reasonable measures to determine that the intermediary has engaged in a sound customer due diligence process, consistent with the requirements in section AML-1.8.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.7 Enhanced Due Diligence: 'Pooled Funds' (continued)

AML-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 40+9 Recommendations and the intermediary must be supervised for compliance with those requirements. The Capital Market Service Provider must obtain documentary evidence to support the case for not carrying out customer due diligence measures beyond identifying the intermediary. The Capital Market Service Provider 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.

AML-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 Capital Market Service Provider 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.8 Introduced Business from Professional Intermediaries

AML-1.8.1

A Capital Market Service Provider may only accept customers introduced to it by other Capital Market Service Providers, financial institutions or intermediaries, if it has satisfied itself that the introducer concerned is subject to FATF-equivalent customer due diligence measures. Where Capital Market Service Providers delegate part of the customer due diligence measures to an introducer, the responsibility for meeting the requirements of Chapters 1 and 2 remains with the Capital Market Service Provider, not the introducer.

AML-1.8.2

Capital Market Service Providers 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 Capital Market Service Provider 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 identity of the customer and beneficial owner of the funds and, where applicable, the party/parties on whose behalf the customer is acting; also, the introducer has confirmed that the Capital Market Service Provider 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 Capital Market Service Provider and that these documents will be kept for at least five years after the business relationship has ended.

AML-1.8.3

The Capital Market Service Provider 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 Capital Market Service Provider must also perform periodic reviews to verify whether the jurisdiction is in compliance with the FATF 40+9 Recommendations.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.8 **Introduced Business from Professional Intermediaries (continued)**

AML-1.8.4

Should the Capital Market Service Provider not be satisfied that the introducer is in compliance with the requirements of the FATF 40+9 Recommendations, the Capital Market Service Provider must not accept further introductions, or discontinue the business relationship with the introducer.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.9 Shell Banks

AML-1.9.1

Capital Market Service Providers must not establish business relations with banks which have no physical presence or ‘mind and management’ in the jurisdiction in which they are licensed (‘shell banks’) and which are unaffiliated with a regulated financial group (see FATF Recommendation 18). Capital Market Service Providers must not knowingly establish relations with other Capital Market Service Providers or financial institutions that have relations with shell banks.

AML-1.9.2

Capital Market Service Providers must make a Suspicious Transaction Report to the Financial Intelligence Unit, General Directorate of Criminal Investigation, Ministry of Interior and the Compliance Directorate of the CBB if they are approached by a shell bank or an institution they suspect of being a shell bank.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.10 Simplified Customer Due Diligence

AML-1.10.1

Capital Market Service Providers may apply simplified customer due diligence measures, as described in paragraphs AML-1.10.2 to AML-1.10.6, if:

- (a) The transaction is a one-off or occasional transaction not exceeding BD6,000 (or equivalent in other currencies), or one of a number of transactions which are related and, when taken together, do not exceed BD6,000 per year (or equivalent in other currencies);
- (b) The transaction concerns the sale of a Security listed on a licensed exchange, issued as a result of an initial public offering after January 2006, and the customer already holds an investor number and an allotment letter. Furthermore, the licensed exchange should have advised the broker (by circular) that all necessary customer due diligence information and copies of all original identification documents will be made available upon request without delay;
- (c) The customer is a company listed on a GCC or FATF member state stock exchange with equivalent disclosure standards to those of a licensed exchange;
- (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;
- (f) The customer is the Central Bank of Bahrain ('CBB'), a licensed exchange, or a licensee of the CBB; or
- (g) The customer is a Ministry of a GCC or FATF member state government, a company in which a GCC government is a majority shareholder, or a company established by decree in the GCC.

AML-1.10.2

For customers falling under categories (a) and (b) in rule AML-1.10.1, the customer's name and contact information must be recorded. However, the verification, certification and due diligence requirements (contained in rules AML-1.2.3, AML-1.2.5, AML-1.2.6, AML-1.2.8, AML-1.2.9 and AML-1.2.11), may be dispensed with.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: General Requirements

AML-1.10 Simplified Customer Due Diligence (continued)

AML-1.10.3 As a matter of prudence, it is recommended that the Capital Market Service Provider nonetheless at least checks identification documentation in respect of customers under categories (a) and (b) in rule AML-1.10.1. Capital Market Service Providers may, of course, continue to apply the verification, certification and due diligence requirements referred to in rule AML-1.10.2 for their own purposes.

AML-1.10.4 For customers falling under categories (c) to (g) in rule AML-1.10.1, the information required under rule AML-1.2.7 (for legal entities) must be obtained. However, the verification, certification and due diligence requirements (contained in rules AML-1.2.3, AML-1.2.5, AML-1.2.6, AML-1.2.8, AML-1.2.9 and AML-1.2.11), may be dispensed with.

AML-1.10.5 Capital Market Service Providers wishing to apply simplified due diligence measures as allowed for under categories (c) to (g) of rule AML-1.10.1 must retain documentary evidence supporting their categorization of the customer.

AML-1.10.6 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.

AML-1.10.7 Capital Market Service Providers may use authenticated SWIFT messages as a basis for confirmation of the identity of a financial institution under rule AML-1.10.1 (d) and (e) where it is dealing as principal. For customers coming under rule AML-1.10.1 (d) and (e), Capital Market Service Providers 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.

AML-1.10.8 Simplified customer due diligence measures must not be applied where a Capital Market Service Provider 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.

AML-1.10.9 Simplified customer due diligence measures must not be applied where a Capital Market Service Provider knows, suspects, or has reason to suspect, that transactions are linked, such that they exceed the threshold specified in rule AML-1.10.1 (a).



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-2: AML/CFT Systems and Controls

AML-2.1 General Requirements

AML-2.1.1

Capital Market Service Providers 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 Capital Market Service Provider. The documentation, and the Board's review and approval, must be made available upon request to the CBB.

AML-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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-2: AML/CFT Systems and Controls

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

Risk Based Monitoring

AML-2.2.1

Capital Market Service Providers 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.

AML-2.2.2

Capital Market Service Providers' 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

AML-2.2.3

Capital Market Service Providers must consider the need to include automated transaction monitoring as part of their risk-based monitoring systems to spot abnormal or unusual flow of funds. In the absence of automated transaction monitoring systems, all transactions above BD6,000 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 Capital Market Service Providers for five years after the date of the transaction.

AML-2.2.4

The CBB would expect larger Capital Market Service Providers to include automated transaction monitoring as part of their risk-based monitoring systems. See also Chapters AML-3 and AML-6, regarding the responsibilities of the MLRO and record-keeping requirements. Where the Capital Market Service Provider is not receiving funds – for instance where it is simply acting as agent on behalf of a principal, and the customer is directly remitting funds to the principal – then the Capital Market Service Provider may agree with the principal that the latter should be responsible for the daily monitoring of such transactions.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-2: AML/CFT Systems and Controls

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

Unusual Transactions or Customer Behaviour

AML-2.2.5

Where a Capital Market Service Provider's risk-based monitoring systems identify significant or abnormal transactions (as defined in paragraph AML-2.2.2 and rule AML-2.2.3), it must verify the source of funds for those transactions, particularly where the transactions are above the occasional transactions threshold of BD6,000. Furthermore, Capital Market Service Providers must examine the background and purpose to those transactions and document their findings. In the case of one-off transactions where there is no ongoing account relationship, the Capital Market Service Provider must file a Suspicious Transaction Report (STR) if it is unable to verify the source of funds to its satisfaction (see Chapter AML-4).

AML-2.2.6

The investigations required under rule AML-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 rule AML-6.1.1 (b)).

AML-2.2.7

Capital Market Service Providers must consider instances where there is a significant, unexpected or unexplained change in customer activity.

AML-2.2.8

When an existing customer closes one account and opens another, the Capital Market Service Provider must review its customer identity information and update its records accordingly. Where the information available falls short of the requirements contained in Chapter AML-1, the missing or out-of-date information must be obtained and re-verified with the customer.

AML-2.2.9

Once identification procedures have been satisfactorily completed and, as long as records concerning the customer are maintained in line with Chapters AML-1 and AML-6, 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-2: AML/CFT Systems and Controls

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

Maintaining Documentation

AML-2.2.10

Capital Market Service Providers must take reasonable steps to ensure that they receive and maintain up-to-date copies of the identification documents specified in Chapter AML-1. Capital Market Service Providers must require all customers to provide up-to-date identification documents in their standard terms and conditions of business.

AML-2.2.11

Capital Market Service Providers 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 Capital Market Service Provider must take steps to obtain updated copies as soon as possible.

AML-2.2.12

Capital Market Service Providers must in addition to rules AML-2.2.10 and AML-2.2.11, maintain information and documents in respect to client transactions such as date of execution, value of transaction, type of Securities and identity of the counterparty.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-3: Money Laundering Reporting Officer (MLRO)

AML-3.1 Appointment of MLRO

AML-3.1.1

Capital Market Service Providers must appoint a Money Laundering Reporting Officer (“MLRO”). The position of the MLRO is a controlled function and the MLRO is an approved Person.

AML-3.1.2

For details of CBB’s requirements regarding controlled functions and approved Persons, see the relevant licensing Module, such as MAE, CSD, or MIR Module. 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.

AML-3.1.3

The position of the 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 the MLRO may not be outsourced.

AML-3.1.4

Subject to rule AML-3.1.3, however, the position of the MLRO may otherwise be combined with other functions in the Capital Market Service Provider, 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. Rule AML-3.1.7 requires that the MLRO is a Director or employee of the Capital Market Service Provider, so the function may not be outsourced to a third party employee.

AML-3.1.5

Capital Market Service Providers must appoint at least one deputy MLRO (or more depending on the scale and complexity of the Capital Market Service Provider’s operations). The deputy MLRO is a controlled function and the MLRO is an approved person.

AML-3.1.6

Capital Market Service Providers should note that although the MLRO may delegate some of his functions, either to other employees of the Capital Market Service Provider or even (in the case of larger groups) to individuals performing similar functions for other group entities, the responsibility for compliance with the requirements of this Module remains with the Capital Market Service Provider and the designated MLRO. The deputy MLRO should be able to support the MLRO discharge his responsibilities and to deputise for him in his absence.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-3: Money Laundering Reporting Officer (MLRO)

AML-3.1 Appointment of MLRO (continued)

AML-3.1.7

So that he can carry out his functions effectively, Capital Market Service Providers must ensure that their MLRO:

- (a) Is a Director or a member of senior management of the Capital Market Service Provider;
- (b) Has a sufficient level of seniority within the Capital Market Service Provider, 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 Capital Market Service Provider to that customer, or any transactions conducted by the Capital Market Service Provider on behalf of a customer;
- (e) Is provided with timely information needed to identify, analyze and effectively monitor customer accounts;
- (f) Has access to all customer due diligence information obtained by the Capital Market Service Provider; and
- (g) Is resident in Bahrain.

AML-3.1.8

In addition, Capital Market Service Providers 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 Financial Intelligence Unit, General Directorate of Criminal Investigation, Ministry of Interior, or the CBB.

AML-3.1.9

If the position of the MLRO falls vacant, the Capital Market Service Provider 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 Capital Market Service Provider 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. Any action taken by the Deputy MLRO will be regarded as having the same authority as if it had been done by the MLRO.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-3: Money Laundering Reporting Officer (MLRO)

AML-3.2 Responsibilities of the MLRO

AML-3.2.1

The MLRO is responsible for:

- (a) Establishing and maintaining the Capital Market Service Provider's AML/CFT policies and procedures;
- (b) Ensuring that the Capital Market Service Provider complies with the AML Law, any other applicable AML/CFT legislation and this Module;
- (c) Ensuring day-to-day compliance with the Capital Market Service Provider's own internal AML/CFT policies and procedures;
- (d) Acting as the Capital Market Service Provider's main point of contact in respect of handling internal Suspicious Transaction Reports from the Capital Market Service Provider's staff (refer to section AML-4.1) and as the main contact for the Financial Intelligence Unit, the CBB and other concerned bodies regarding AML/CFT;
- (e) Making external Suspicious Transaction Reports to the Financial Intelligence Unit and Compliance Directorate (refer to section AML-4.2);
- (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 AML-5;
- (g) Producing annual reports on the effectiveness of the Capital Market Service Provider's AML/CFT controls, for consideration by senior management, as per rule AML-3.3.3 and following-up on the status of any anomaly identified or remedial measure required by the CBB;
- (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 AML-6.1).



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-3: Money Laundering Reporting Officer (MLRO)

AML-3.3 Compliance Monitoring

Annual Compliance Review

AML-3.3.1

A Capital Market Service Provider must review the effectiveness of its AML/CFT procedures, systems and controls at least once each calendar year. The review must cover the Capital Market Service Provider 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 AML-4.1, a breakdown of all the results of those internal reports and their outcomes for each segment of the Capital Market Service Provider'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 AML-4.2 and, where a Capital Market Service Provider 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 Capital Market Service Provider's anti-money laundering procedures, systems and controls and compliance with the rules of a licensed exchange and clearing and depository corporation, AML Law and this Module.

AML-3.3.2

The reports listed under rule AML-3.3.1 (a) and (b) must be made by the MLRO. The sample testing required under rule AML-3.3.1 (c) must be undertaken either by the Capital Market Service Provider's internal audit function or its external auditors. The report required under rule AML-3.3.1 (d) must be made by the Capital Market Service Provider's external auditors.

AML-3.3.3

The reports listed under rule AML-3.3.1 must be submitted to the Capital Market Service Provider's Board for it to review and commission any required remedial measures and copied to the Capital Market Service Provider's senior management.

AML-3.4

The purpose of the annual compliance review is to assist a Capital Market Service Provider's Board and senior management to assess, amongst other things, whether internal and external reports are being made (as required under Chapter AML-4), and whether the overall number of such reports (which may otherwise appear satisfactory) does not conceal inadequate reporting in a particular segment of the Capital Market Service Provider's business (or, where relevant, in particular branches or subsidiaries). Capital Market Service Providers should use their judgement as to how the reports listed under rule AML-3.1 (a) and (b) should be broken down in order to achieve this aim (e.g. by branches, departments, product lines, etc).



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-3: Money Laundering Reporting Officer (MLRO)

AML-3.3 Compliance Monitoring (continued)

AML-3.3.5

Capital Market Service Providers must instruct their external auditor to produce the report referred to in rule AML-3.3.1 (d). The report must be submitted to the CBB by the 30th of April of the following year. The findings of this review must be received and acted upon by the **Capital Market Service Provider**.

AML-3.3.6

The external auditors may rely upon work performed by the **Capital Market Service Provider's** internal audit function as part of their procedures for producing the report referred to in rule AML-3.3.5.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-4: Suspicious Transaction Reporting

AML-4.1 Internal Reporting

AML-4.1.1

Capital Market Service Providers 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.

AML-4.1.2

Where Capital Market Service Providers' 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-4: Suspicious Transaction Reporting

AML-4.2 External Reporting

AML-4.2.1

Capital Market Service Providers must take reasonable steps to ensure that all reports made under section AML-4.1 are considered by the MLRO (or his duly authorised delegate). Having considered the report and any other relevant information, if the MLRO (or his duly authorised delegate), still suspects that a Person has been engaged in Money Laundering or terrorism financing, or the activity concerned is otherwise still regarded as suspicious, he must report the fact promptly to the Relevant Authorities. Where no report is made, the MLRO must document the reasons why.

AML-4.2.2

To take reasonable steps, as required under rule AML-4.2.1, Capital Market Service Providers must:

- (a) Require the MLRO to consider reports made under Section AML-4.1 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 Capital Market Service Provider'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.

AML-4.2.3

Reports to the Relevant Authorities made under rule AML-4.2.1 must be sent to the Financial Intelligence 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 6 (Capital Markets).

AML-4.2.4

Capital Market Service Providers must report all suspicious transactions or attempted transactions. This reporting requirement applies regardless of whether the transaction involves tax matters.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-4: Suspicious Transaction Reporting

AML-4.2 External Reporting (continued)

AML-4.2.5 Capital Market Service Providers must retain all relevant details of STRs submitted to the Relevant Authorities, for at least five years.

AML-4.2.6 In accordance with the AML Law, Capital Market Service Providers, 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-4: Suspicious Transaction Reporting

AML-4.3 Reporting to the SRO

AML-4.3.1

The MLRO, whenever he becomes aware or believes, or has reason to believe that a client is involved in a Money Laundering offence, shall in addition to the reporting in section AML-4.2, inform the SRO on which the transaction is taking place, or where the Securities or cash is being held, in which case the SRO must, unless instructed otherwise by a Relevant Authority, stop the execution of the suspicious transaction and any Security deposited with the SRO or other Capital Market Service Provider.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-4: Suspicious Transaction Reporting

AML-4.4 Contacting the Relevant Authorities

AML-4.4.1

Reports made by the MLRO or his duly authorised delegate under section AML-4.2 must be sent to the Financial Intelligence Unit at the Ministry of the Interior and copied to the Compliance Directorate at the Central Bank of Bahrain at the following addresses:

Financial Intelligence 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: bahrainfiu@moipolice.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



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-5: Staff Training and Recruitment

AML-5.1 General Requirements

AML-5.1.1

Capital Market Service Providers 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 Capital Market Service Provider'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 report in accordance with section AML-4.1;
- (g) The Capital Market Service Provider's procedures for making an internal report as per section AML-4.1; and
- (h) Customer due diligence measures with respect to establishing business relations with customers.

AML-5.1.2

The information referred to in rule AML-5.1.1 must be brought to the attention of relevant new employees of Capital Market Service Providers, and must remain available for reference by staff during their period of employment.

AML-5.1.3

Relevant new employees must be given AML/CFT training within three months of joining a Capital Market Service Provider.

AML-5.1.4

Capital Market Service Providers must ensure that their AML/CFT training for relevant staff remains up-to-date, and is appropriate given the Capital Market Service Provider's activities and customer base.

AML-5.1.5

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

AML-5.1.6

Capital Market Service Providers 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 Capital Market Service Providers.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-6: Record Keeping

AML-6.1 General Requirements

CDD and Transaction Records

AML-6.1.1

Capital Market Service Providers must comply with the record-keeping requirements contained in the AML Law and in the CBB Law. Capital Market Service Providers 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 enabling a reconstitution of the transaction concerned, for at least five years after the transaction was completed.

Compliance Records

AML-6.1.2

Capital Market Service Providers must retain copies of the reports produced for their annual compliance review, as specified in rule AML-3.3.1, for at least five years. Capital Market Service Providers must also maintain for five years reports made to, or by, the MLRO made in accordance with sections AML-4.1 and AML-4.2, and records showing how these reports were dealt with and what action, if any, was taken as a consequence of those reports.

AML-6.1.3

When required to deliver the original copy of a record concerning any transaction, or a document pertaining thereto before the expiry of the prescribed period, the Capital Market Service Providers shall observe the following:

- (a) They shall maintain a complete copy of the delivered record or documents until the end of the period prescribed for maintaining the original records or documents.
- (b) They shall maintain a record of the delivered documents.

Training Records

AML-6.1.4

Capital Market Service Providers 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

AML-6.1.5

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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-7: General Requirements in Relation to Securities

AML-7.1 General Requirements in Respect of Substantial Shareholding

AML-7.1.1

Any Person whose ownership alone or his ownership together with that of his minor children, or any other accounts under his disposal, or the ownership of any of his associate or affiliate companies amounts to 5% or more of any listed Security of a joint stock company, must notify the licensed exchange forthwith, which shall in turn notify the CBB of this fact and the CBB may declare the name of the Person who owns such stake.

AML-7.1.2

It shall be prohibited to execute any purchase order issued by any client whose ownership alone or his ownership together with that of his minor children, or the accounts standing under his disposal amounts to 5% or more of any listed Security, and who wishes to carry out any transaction whether for his own account or any account standing under his disposal in a number of Securities representing 1% or more of such issue, unless such transaction is concluded on a licensed exchange in Bahrain and the CBB's prior written consent is obtained.

AML-7.1.3

It shall be prohibited to execute any order issued by a client whose ownership amounts to 5% or more in any listed Security, and who wishes to own a stake of 10% or more of the company's shares, save upon ensuring that he has obtained written approval from the CBB to this effect.

AML-7.1.4

Without prejudice to any greater penalty prescribed under the Prevention and Prohibition of the Money Laundering Law or any other law, a breach of the provisions of section AML-7.1 shall result in the cancellation of the transaction, and the Person in breach shall bear all costs arising in this connection.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-7: General Requirements in Relation to Securities

AML-7.2 Requirements for Listing

AML-7.2.1

No local or foreign company shall be listed on a Licensed Exchange, unless their documents of incorporation are complete and satisfy all legal requirements applicable in the Kingdom, or in their countries of incorporation to the extent that these are comparable to this Module, as the case may be.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-7: General Requirements in Relation to Securities

AML-7.3 Requirements for Offering

AML-7.3.1

No Security shall be offered for public subscription in the Kingdom unless the issuing company is duly incorporated under the laws of the Kingdom, or the laws of its country of incorporation, as the case may be, satisfying all terms and conditions governing the public offering of Securities in the Kingdom, and abiding by the conditions and requirements stipulated under the Commercial Companies Law and the Disclosure Standards in force in the Kingdom.

AML-7.3.2

No Security issued to the bearer shall be offered, listed, traded or deposited on a Licensed Exchange.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-7: General Requirements in Relation to Securities

AML-7.4 Requirements for Deposit

AML-7.4.1

A Security shall not be accepted in the Central Depository System unless its authenticity is approved by the concerned shares registrar and the client shall provide the Central Depository System with any amendment or change which may occur in such particulars.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-8: Acceptance of Cash by SRO Members

AML-8.1 Acceptance of Cash by SRO Members

AML-8.1.1

Brokerage companies and offices may receive cash amounts in Bahraini Dinars for transactions with a value not exceeding Five Hundred Bahraini Dinars, save for transactions carried out frequently by the same client.

AML-8.1.2

If the value of a transaction is paid for by cheque by a third party other than the purchaser, the identity of such third party shall be verified.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-9: NCCT Measures and Terrorist Financing

AML-9.1 Special Measures for Non-Cooperative Countries or Territories ('NCCTs')

AML-9.1.1

Capital Market Service Providers 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 Capital Market Service Providers from time-to-time by the CBB.

AML-9.1.2

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 AML-4.2.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-9: NCCT Measures and Terrorist Financing

AML-9.2 Terrorist Financing

AML-9.2.1 Capital Market Service Providers must comply in full with the provisions of the UN Security Council Anti-Terrorism Resolution No. 1373 of 2001 ('UNSCR 1373').

AML-9.2.2 Any Capital Market Service Provider 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.

AML-9.2.3 A copy of UNSCR 1373 is included in Part B of Volume 6 (Capital Markets), under 'Supplementary Information' on the CBB Website.

AML-9.2.4 Capital Market Service Providers 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 Capital Market Service Provider has on Persons and entities which may be the subject of Article 1, Paragraphs (c) and (d) of UNSCR 1373.

AML-9.2.5 For the purposes of rule AML-7.2.4, '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, Paragraphs (c) and (d) of UNSCR 1373, and any associated dividends received by the Capital Market Service Provider.

AML-9.2.6 All reports or notifications under this section must be made to the CBB's Compliance Directorate.

AML-9.2.7 See section AML-4.3 for the Compliance Directorate's contact details.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-9: NCCT Measures and Terrorist Financing

AML-9.3 Designated Persons and Entities

AML-9.3.1

Without prejudice to the general duty of all Capital Market Service Providers to exercise the utmost care when dealing with Persons or entities who might come under Article 1, Paragraphs (c) and (d) of UNSCR 1373, Capital Market Service Providers must not deal with any Persons or entities designated by the CBB as potentially linked to terrorist activity.

AML-9.3.2

The CBB from time-to-time issues to Capital Market Service Providers lists of designated Persons and entities believed linked to terrorism. Capital Market Service Providers 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 the CBB include Persons and entities designated by the United Nations, under UN Security Council Resolution 1267 ('UNSCR 1267').

AML-9.3.3

Capital Market Service Providers must report to the Relevant Authorities, using the procedures contained in section AML-4.2, details of any accounts or other dealings with designated Persons and entities, and comply with any subsequent directions issued by the Relevant Authorities.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-10: Enforcement Measures

AML-10.1 Regulatory Penalties

AML-10.1.1

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 Capital Market Service Provider 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 BD20,000.

AML-10.1.2 Module MIE provides further information on the CBB's general approach to enforcement and the criteria taken into account prior to imposing such fines (see section MIE-3.1). Other enforcement measures may also be applied by the CBB in response to a failure by a Capital Market Service Provider to comply with this Module; these other measures are also set out in Module MIE.

AML-10.1.3 The CBB will endeavour to assist Capital Market Service Providers to interpret and apply the requirements of this Module. Capital Market Service Providers may seek clarification on any issue by contacting the Compliance Directorate (see section AML-4.3 for contact details).

AML-10.1.4 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 Capital Market Service Providers.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-11: AML/CFT Guidance and Best Practice

AML-11.1 Guidance Provided by International Bodies

FATF: 40 Recommendations and 9 Special Recommendations

AML-11.1.1 The 40 Recommendations (see www.fatf-gafi.org) and 9 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.

AML-11.1.2 The Relevant Authorities in Bahrain believe that the principles established by these Recommendations and Special Recommendations should be followed by Capital Market Service Providers in all material respects, as representing best practice and prudence in this area.

Other Website References Relevant to AML/CFT

AML-11.1.3 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.



MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-12: Fraud

AML-12.1 General Requirements for the Detection and Prevention of Fraud

AML-12.1.1

Capital Market Service Providers must ensure that they allocate appropriate resources and have in place systems and controls to deter, detect, and record instances of fraud or attempted fraud.

AML-12.1.2

Fraud may arise from internal sources originating from changes or weaknesses to processes, products and internal systems and controls. Fraud can also arise from external sources, for instance through false invoicing or advance fee frauds. Further guidance – and occasional investor alerts – can be found on the CBB's website (www.cbb.gov.bh).

AML-12.1.3

Any actual or attempted fraud incident (however small) must be reported to the appropriate authorities (including the CBB) and followed up. Monitoring systems must be designed to measure fraud patterns that might reveal a series of related fraud incidents.

AML-12.1.4

Capital Market Service Providers must ensure that a Person of sufficient seniority is given overall responsibility for the prevention, detection and remedying of fraud within the organisation.

AML-12.1.5

Capital Market Service Providers must ensure the effective segregation of functions and responsibilities between different individuals and departments, such that the possibility of financial crime is reduced and that no single individual is able to initiate, process and control a transaction.

AML-12.1.6

Capital Market Service Providers must provide regular training to their management and staff, to make them aware of potential fraud risks.