


# **SUPPLEMENTARY INFORMATION**

## **Appendix MIR– 1**


### **Segregation and Handling of Clients' Assets**

#### **Agreed Upon Procedures**

 <b>Central Bank of Bahrain Rulebook</b>	<b>Volume 6: Capital Markets</b>
<b>Appendix MIR-1: Segregation and Handling of Clients' Assets Agreed Upon Procedures</b>	

<p align="center"><b>Client Assets: Agreed Upon Procedures History</b></p>
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Change Date	Description of Changes
[Month Year]	

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## AGREED UPON PROCEDURES REPORT

**[Name of the Member]**


**Financial year ended DD/MM/YYYY**

**Report to the CBB pursuant to Rule MIR-4.7.22**

We have performed the procedures agreed with the Board of Directors and as enumerated below with respect to compliance by **(Name of the licensee)**, a member of **(Name of the licensed exchange)** in respect of segregation and handling of client assets regulations set out in section MIR-4.7 of the Market Intermediaries and Representatives License Module ("MIR Module") of the CBB Rulebook Volume 6 for the year ended DD/MM/YYYY.


Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to ensure that **(Name of the licensee) as a member of (Name of the licensed exchange)** complies with the MIR Module of Volume 6 Rulebook issued by the CBB in this regard and summarised as follows:

1. We have reviewed and where applicable confirm by way of sample analysis or other evidence that **[name of the member]** complies with the following requirements pertaining to segregation of client assets:
  - A. Maintains sufficient systems and procedures in respect of the handling of securities, money or other assets, including but not limited to the requirement of maintaining books and records, segregation of the clients' securities, money and assets and the risk management and internal controls systems to address this requirement (MIR-4.7.5);
  - B. Holds client assets separate from its own at all times and establishes and maintains separate client accounts, segregated from those used for their own accounts in connection with any clients' securities and funds received in the course of their business (MIR-4.7.6)
  - C. Where client's assets has been used for its own account , and/or for the account of any of its other clients as permitted by the rules under (MIR-4.7.7), it has met the following conditions;
    - i. The client has given his express consent in writing;
    - ii. The use of the client assets is restricted to the terms and conditions stipulated on the agreement agreed and signed by it; and
    - iii. The agreement in which that client's consent is requested gives clear information to him on:
      - a. The rights, obligations and responsibilities of the member and/or of the clients for whose account the member has been allowed to use the client's assets, with respect to the use of such assets;
      - b. The risks involved; and
      - c. Where eligible to be appointed as a market maker, such member discloses to its client the existence of the market making agreement entered into between the member and the licensed exchange and written consent is


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obtained from the client stating his awareness of the market making arrangement between the member and the licensed exchange and that he has fully understood the potential risk and conflict of interest associated with such activities.

- D. Communicates to its clients in writing, at a minimum, the information regarding client assets held (MIR-4.7.8). The aforementioned information has been reported after the initial transaction date but not later than the required date stipulated in the designated clearing, settlement and central depository system.
  - E. Maintains and holds the client assets under the following agreements or arrangements by way of a duly signed agreement with its clients (MIR-4.7.9):
    - i. Non discretionary securities account;
    - ii. Discretionary accounts and portfolios;
    - iii. Margin trading arrangements;
    - iv. Depository and custody accounts;
    - v. Bank accounts related to the securities transactions (if applicable);
    - vi. Securities lending and borrowing arrangements;
    - vii. For the purpose of collateral arrangements;
    - viii. Under specific mandates and arrangements approved by the CBB and SRO.
2. We have reviewed and where applicable confirm by way of sample analysis or other evidence that **[name of the member]** complies with the following requirements pertaining to client money:
- A. Holds client money in a separate client bank account designated for the purpose of settlement of the client's transaction (MIR-4.7.10).
  - B. The client bank accounts are only opened with banks licensed by the CBB to do business in Bahrain, after being subject to due diligence by the member (MIR-4.7.12).
  - C. Where client assets are held or controlled under an arrangement with a market counterparty and are not subject to the client asset provisions, disclosure of the following information has been made in writing to the market counterparty (MIR-4.7.14)
    - i. The protections conferred by the client asset protection rules do not apply to such client money;
    - ii. As a consequence of (i) above, such client assets may be mixed with money belonging to the member, and may be used by the member in the course of the clearing and settling of the clients' securities transaction; and
    - iii. In the event of insolvency, winding up of the member or other distribution event stipulated by the laws, rules and regulations, the clients' assets shall not be considered as a part of the member's assets.
3. We have reviewed and where applicable confirm by way of sample analysis or other evidence that **[name of the member]** complies with the following requirements pertaining to transfer of money to eligible third parties:
- A. Whether the member only pays, or permits to be paid, clients' money into an account of a person who is a counterparty of the securities transaction, in accordance with the applicable clearing, settlement and central depository rules (MIR-4.7.15).
  - B. The member does not hold money other than client money in a client bank account unless it is (MIR-4.7.16):
    - i. A minimum sum required to open the account or to keep it open;

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- ii. Money temporarily held in the account in accordance with the mixed remittance requirements; or
  - iii. Interest credited to the account which exceeds the amount due to clients as interest and which has not yet been withdrawn by the client or the member
- C. Where the member receives a mixed remittance (that is part client money and part other money), it (MIR-4.7.17):
  - i. Pays the full sum into a client bank account; and
  - ii. Pays the money that is not client money out of the client bank account within the same business day or otherwise as per provision of the agreement under rule MIR-4.7.7 (b).
- 4. We have reviewed and where applicable confirm by way of sample analysis or other evidence that **[name of the member]** complies with the following requirements pertaining to reconciliation of client securities account and client bank account:
  - A. The member ensures that a system is implemented to perform reconciliations of both client securities account and client bank accounts after each transaction is executed for the benefit of that particular client. In addition, these reconciliations are carried out on a regular basis, sufficient to ensure the accuracy of its records at least once a month on the last business day of each calendar month (MIR-4.7.18).
  - B. The member performs the reconciliations required under rule MIR- 4.7.18 within 10 calendar days from the end of each month (MIR-4.7.19).
  - C. In respect of reconciliation, the member ensures that unresolved differences, shortfalls and excess balances are investigated and, where applicable, corrective action is taken as soon as is practicable. In such cases, the member also confirms such corrective action to the related clients and other counterparty's broker-dealers (if required) (MIR-4.7.20).
- 5. We have reviewed and where applicable confirm by way of sample analysis or other evidence that **[name of the member]** ensures that proper records, sufficient to show and explain the member's transactions and commitments in respect of its client assets are kept and that these records are retained for a period of a minimum of 10 years after they were made, unless otherwise required by law (MIR-4.7.21).
- 6. We confirm that **[name of the member]** arranges for its external auditor to report on the member's compliance with the requirement of segregation and handling of clients' assets, and that the external auditors report is submitted to the CBB within 3 months of the member's financial year end (MIR-4.7.22 and MIR-4.7.23).
- 7. We confirm that **[name of the member]**, prior to undertaking any regulated activities or services specified under MIR-1.1.2, notifies the client as to the appropriate terms and conditions which shall apply to each service or arrangement and signs the prescribed agreement(s) and that the agreement(s) contains the minimum requirements and information as specified under MIR-4.7.24.


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## Opinion

We report our findings below:

- a) With respect to item 1, we found that **[name of the member]** complies with segregation of client assets requirements (MIR-4.7.5, MIR-4.7.6, MIR-4.7.7, MIR-4.7.8 and MIR-4.7.9), except as noted below;
- b) With respect to item 2, we found that **[name of the member]** complies with client money requirements (MIR-4.7.10, MIR-4.7.12 and MIR-4.7.14), except as noted below;
- c) With respect to item 3, we found that **[name of the member]** complies with transfer of money to eligible third parties requirements (MIR-4.7.15, MIR-4.7.16 and MIR-4.7.17), except as noted below;
- d) With respect to item 4, we found that **[name of the member]** complies with reconciliation requirements (MIR-4.7.18, MIR-4.7.19 and MIR-4.7.20), except as noted below;
- e) With respect to item 5, we found that **[name of the member]** complies with record keeping requirements (MIR-4.7.21), except as noted below;
- f) With respect to item 6, we found that **[name of the member]** complies with external auditor report requirements (MIR-4.7.22 and MIR-4.7.23), except as noted below;
- g) With respect to item 7, we found that **[name of the member]** complies with client agreement and statements requirements (MIR-4.7.24), except as noted below;

## Exceptions

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## **Basis of Opinion**

Because the above procedures do not constitute an audit or a review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any audit or review assurance on the information reported as required under segregation and handling of clients' assets provisions set out in the Market Intermediaries and Representatives License Module ("MIR Module") of the CBB Rulebook Volume 6. Had we performed additional procedures or had we performed an audit or review of the report in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is only for the information of the Company and the CBB. This report should not be used for any other purpose or to be distributed to any other parties. This report relates only to the procedure for the year ended DD/MM/YY

Name of auditor

Date