



EDBS/KH/217/2013
26th November 2013

Chief Executive Officer

All Banks
Audit Firms
Law Firms
Manama
Kingdom of Bahrain

Dear Sir,


Sound Remuneration Practices for Licensed Banks

As a follow up to the consultation process and discussions with the industry, the Central Bank of Bahrain ('CBB') is issuing amendments to the CBB Rulebook incorporating the sound remuneration rules for licensed banks. This letter outlines the structure of these amendments as well as some of the important changes that have been put in place based on the feedback received.

Structure of Amendments

The amendments issued to implement the results of the consultation on sound remuneration practices for licensed banks are found in the following components of Volume 1 or 2 of the CBB Rulebook and are included under ad hoc communications under the respective Volume of the Rulebook on the CBB Website:

1. Chapter HC-5 – Remuneration of Approved Persons and Material Risk-Takers
2. New Section AU-3.6 – Report on Compliance with Remuneration Rules
3. Module BR – various Sections (see below)
4. Section PD-1.3 – Disclosure Requirements Pertaining to Remuneration
5. New Glossary Terms
6. Appendix HC-1 – Remuneration Agreed-Upon Procedures (to be issued following consultation process with the external auditors)
7. Appendix BR-14 – Details of Remuneration Paid
8. Appendix BR-15 – Details of Remuneration for Top 12 Employees


2/...

The bulk of the changes are included under item 1, Chapter HC-5.

Transition Period

The CBB will allow for a transition period until end of June 2014 for the implementation of these rules. This means that the subject Rules will be effective from 1st July 2014 and will be incorporated in the January 2014 update of the Rulebook.

Back Testing and Stress Testing the Remuneration Policy

Banks should refer to the Basel Committee Paper on the Range of Methodologies for Risk and Performance Alignment of Remuneration which provides guidance on such testing. Moreover, some examples of testing have now been included as guidance in Module HC.

Review of Contracts of Employment and Existing Policies

In implementing the amended Rules, banks will need to review all employment contracts and existing policies currently in place for approved persons and material risk-takers to ensure that these documents are compliant with the new remuneration Rules by 30th June 2014 at the latest.

Employees Leaving Bank with Deferred Remuneration Due to Them

The contracts of employment will need to specify the terms dealing with deferred remuneration with the minimum 3-year deferral period, applied as outlined in Chapter HC-5. The deferral must continue to apply and any remuneration owing is subject to malus, should the deferred remuneration related to the risk not be aligned with the actual outcome of the risk.

New Reporting Requirements

New appendices BR-14 and BR-15 are included as part of the amended forms. The form in Appendix BR-15 – Remuneration Paid to top 12 Employees, should be completed but retained at the bank's premises and provided to the CBB upon request. Both forms are to be completed on an annual basis.

Deferral Period of Variable Remuneration

For variable remuneration that must be deferred, the deferral period must be for a minimum of 3 years.

Share Retention Period

All shares received as part of the remuneration packages must be retained for a minimum period of 3 years once awarded.



Scope of Remuneration Rules – BD100,000 Floor

The remuneration Rules now include a threshold amount whereby the remuneration rules apply to all approved persons and material risk-takers whose total annual remuneration (as defined in the Glossary) is in excess of BD100,000.

Updating Articles and Memorandum of Association

The bank's articles and memorandum of association need to be updated so that no reference is made to remuneration. Remuneration must be addressed in a policy issued by the bank and approved by the Board of Directors, shareholders and the CBB and must be in full compliance with the Remuneration Rules outlined in the CBB Rulebook.

Updated Glossary

An updated list of glossary terms have been included where key terms such as remuneration, material risk-takers, malus and clawback have now been amended or included.

Agreed-Upon Procedures for External Audit Review

The CBB has developed agreed-upon procedures for the external auditors' review which will soon be consulted with the external auditors. The first such report must be completed for the financial year end 2014 and must be submitted to the CBB within 3 months of the bank's year-end.

Outsourcing of Remuneration Related Functions and Administrative Processes

For those banks that have outsourced any of the functions related to the remuneration process, such outsourcing agreements are subject to CBB approval and must be submitted to the CBB for its review. Banks are requested to provide details of these outsourcing arrangements.

Gap Analysis

All banks must complete a gap analysis with the new rules being introduced. The gap analysis must be completed and sent to the bank's normal supervisory point of contact at the CBB by no later than 31st December 2013.

Yours sincerely,


Khalid Hamad