



## **Glossary of Defined Terms**



**Glossary History**

<b>Version Date</b>	<b>Description of Changes</b>
July 2004	Initial Launch Version.
July 2006	Updated version, including new defined terms of retail bank and wholesale bank license sub-categories, and definitions of regulated banking services.
April 2010	Updated Definition of Deposit in accordance with Resolution No. (23) of 2009 in respect of Definition of Deposit.
October 2010	Amended definition for Chief Executive Officer; added definition of Executive director, Independent director; Non-executive director; Remuneration, and; senior manager/management.
January 2011	Minor corrections and amendments for consistency purposes; Amended definition for approved person(s), collective investment undertaking, exposure(s), security(ies); Added definition for accredited investor(s), acquisition(s), bond(s); capital instrument(s), close links, connected person(s), future(s), investment(s), investment analyst, investment research, licensed exchange(s); market, option(s), participant(s), personal account transaction, public offering(s), qualifying holding(s), real time promotion, retail customer(s), self-regulatory organisation(s) or SROs, soft dollar agreement, swap(s), warrants; Deleted definition of independent non-executive director.
April 2011	Amended definition of executive director.
October 2011	Clarified definition of independent director; Added definition for appointed expert(s), qualified by exception. Amended definition of trilateral meeting.
January 2012	Amended definition of independent director; Added definition for underwriting.
April 2012	Corrected cross reference for the definition of director; Corrected typo in the definition of conflict of interest; Updated definition of qualifying holdings to be in line with Module CM.
July 2012	Added definition for Bahrain domiciled CIU(s); Amended definition of controller to be in line with Module GR.
October 2012	Added definition for conspicuous notice, eligible account(s), eligible depositor(s), framework, principal, transferee and transferor. Amended definition of Basel Committee and deposit(s) or deposit account(s).
January 2013	Added definition for financial services. Amended definition of deposit-taking, providing credit, public offering(s).
October 2013	Updated definition of controllers to be in line with Module GR.



**Glossary History**

<b>Version Date</b>	<b>Description of Changes</b>
January 2014	Added definition for clawback, malus, material risk-takers. Amended definition of remuneration.
July 2014	Amended definition for clawback.
October 2014	Amended definition of Authorised money or value transfer service provider(s). Amended definition for financial instruments trader. Corrected cross reference for relevant authorities.
January 2015	Added definition of affiliate, banking group, credit risk, financial entity, market risk, minority interest, operational risk, securities financing transactions, subsidiary and trigger event. Amended definition for control and price risk. Corrected cross reference for acquisition(s).
April 2015	Amended definition of overseas conventional retail bank licensee(s) and subsidiary(ies). Deleted the definition of head of function and qualifying holding(s).
January 2016	Amended the definition of approved person(s).
April 2016	Added definition for disabled customer(s). Amended the definition of controlled function(s).
July 2016	Amended definition of Politically Exposed Persons (PEPs).
October 2016	Added definition of major investment.
April 2017	Added definition of Bahraini retail bank licensee(s).
April 2017	Added definition of Bahraini wholesale bank licensee(s).
July 2017	Added definition of Bahraini conventional retail bank(s).
July 2017	Added definition of Bahraini conventional wholesale bank(s).
July 2017	Deleted Bahraini retail bank licensee(s).
July 2017	Deleted Bahraini wholesale bank licensee(s).
July 2017	Added definition of branches of foreign bank licensee(s).
July 2017	Added definition of country risk..
July 2017	Deleted definition of overseas conventional bank licensee(s).
July 2017	Deleted definition of overseas conventional retail bank licensee(s).
July 2017	Added definition of transfer risk.
July 2017	Deleted the definition of wholesale banks.
October 2017	Added definition of beneficial owner.
October 2018	Added definitions of Module LM.
December 2018	Added definitions of Account Information Service, Account Information Service Provider 'AISPs', Originator Information, Payment Initiation Service, Payment Initiation Service Provider 'PISPs'.
December 2018	Amended definition of Ancillary Service Provider.
April 2019	Added definition of Digital Financial Advice.
October 2019	Added definition of without delay.
July 2020	Amended definition of Independent Director.



# A

## **Accepting Shari'a money placements**

The acceptance of sums of money for safe-keeping ('al-wadiah') in a Shari'a compliant framework, under which it will be repaid, either on demand or in circumstances agreed by the parties involved, and which is not referable to the giving of security.

## **Account Information Service**

An 'account information service' is an online service which provides consolidated information to a payment service user on one or more payment accounts held by that payment service user with other account servicing payment service provider.

## **Account Information Service Provider or AISP (s)**

A person licensed by the CBB to undertake the activity of providing account information services online.

## **Accredited investor(s)**

Defined in Rule BC-8.4.6, an accredited investor includes:

- (a) Individuals holding financial assets (either singly or jointly with their spouse) of USD 1,000,000 or more;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1,000,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).

## **Acquisition(s)**

The acquiring by a bank of beneficial or legal ownership of capital instruments issued by another entity. This would not include securities underwriting until the expiry of the underwriting period (where separate arrangements apply elsewhere in Module CM). Acquisition may also be in the form of exercising of rights to take control of capital instruments pledged as collateral. The pledging of capital instruments by a customer to a bank as collateral (e.g. for the purpose of obtaining credit) does not in itself mean that an "acquisition" has taken place. Acquisition also does not include the establishment of new subsidiaries by the bank. Regulatory requirements for the establishment of SPVs and subsidiaries are contained in Chapter CA-5.2.

## **Administrators**

Persons who administer financial instruments and related services such as cash/collateral management. Such persons need to be registered by the CBB (cf. Volume 4, AU-1.3.2).

## **Affiliate**

An affiliate of a bank is defined as a company that controls, or is controlled by, or is under common control with, the bank. Control has the same meaning as when used in IFRS.



## **Agency based contract for investments**

Holders of investment accounts appoint the Islamic bank to invest their funds on the basis of an agency contract in return for a specified fee or a specified fee and share of the profit if the realised profit exceeds a certain level, the latter being an incentive for the Islamic bank to achieve a return higher than expected.

## **AML**

Anti-Money Laundering

## **Ancillary service provider**

A person licensed under Volume 5 of the CBB Rulebook to undertake regulated ancillary services. These licensees are referred to as ‘financial sector support institutions’ under Article 1 of the CBB Law.

## **Appointed expert(s)**

A duly qualified individual or firm appointed by the CBB to carry out inspections in accordance with Article 114 of the CBB Law or special investigations of licensees in accordance with Article 121 of the CBB Law. Appointed experts may be appointed in addition to the CBB’s own officials. Examples of appointed experts include reporting accountants, lawyers, private investigators, expert witnesses and independent actuaries.

## **Approved person(s)**

Persons undertaking certain functions in relation to CBB licensees require prior CBB approval. These functions (called controlled functions) include board members and those occupying executive positions. The controlled functions regime supplements the licensing regime by ensuring that key persons involved in the running of licensees are fit and proper. Those authorised by the CBB to undertake controlled functions are called approved persons (see Paragraph LR-1A.1.2).

## **Articles of association**

Legal document establishing a corporation, outlining its structure and purpose.

## **Asset revaluation reserves**

An asset revaluation reserve is an accounting concept and represents a reassessment of the value of a capital asset as at a particular date.

## **Associate(d)**

A company or other enterprise, which is not a subsidiary or joint venture, over which the bank licensee has significant influence. Significant influence means the power to participate in financial and operating policy decisions. Such influence is presumed to exist if the bank licensee owns more than 20 percent of the associate.



**Auditor**

The firm/partnership charged with carrying out the audit of a licensee and its partners, directors and managers (see Module AU).

**Authorised Money or Value Transfer Service (MTVS) Provider(s)**

Any Bank or other licensee (such as a money changer) specifically authorised to effect money or value transfers.



## **B**

### **Bahrain domiciled CIU(s)**

Bahrain domiciled CIUs are undertakings where:

- (a) The legal form of the CIU is established under the laws of the Kingdom of Bahrain; and
- (b) The CIU documents and contractual agreements are governed by the Laws of the Kingdom of Bahrain.

### **Bahraini Conventional bank licensee(s)**

As defined in LR-A.1.8.

### **Bahraini Conventional retail banks licensee(s)**

Banks which undertake the regulated banking services of (a) to (n) in Paragraph LR-1.3.1 for both residents and non-residents of the Kingdom of Bahrain.

### **Bahraini retail bank licensee(s)**

[Deleted in July 2017].

### **Bahraini Conventional wholesale banks licensee(s)**

Banks which undertake the regulated banking services of (a) to (n) in Paragraph LR-1.3.1 for both residents and non-residents of the Kingdom of Bahrain, with certain restrictions for residents as defined under Paragraphs LR-1.2.13, LR-1.2.16 and LR-1.2.19.

### **Bahraini wholesale bank licensee(s)**

[Deleted in July 2017].

### **Bank**

Any bank fully recognized as such by the relevant regulator of the country in which it is registered, except such a bank which:

- a. In the opinion of the central bank, is not adequately supervised by the relevant banking supervisory authority;
- b. The license or other authorization of which to carry on banking business is, for the time being, suspended.

### **Banking group**

Groups that engage predominantly in banking activities and are registered as banks in the relevant jurisdiction.

### **Base rate**

The interest rate that underpins lending to bank customers. Banks lend to their customers at basis points over base rates. Not to be confused with prime rate which is the rate at which a bank will lend to its most creditworthy customers.



## **Basel Capital Accord**

Issued initially in July 1988 by the Basel Committee on Banking Supervision, the Basel Capital Adequacy Accord is a risk based capital adequacy methodology that defines the components of capital and applies a series of risk weights and capital charges to banks' assets and holdings of financial instruments. The Accord aims to increase the stability of the international financial system through having a single internationally acknowledged measurement of a bank's capital expressed as a percentage of its financial risks. It also serves to put internationally active banks on an equal competitive footing in respect of the measurement of their capital adequacy.

## **Basel Committee**

The Basel Committee was founded in 1974 by the Bank for International Settlements (BIS). It provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promote common understanding.

## **Beneficial Owner**

Refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. This definition should also apply to **“Ultimate beneficial ownership”**.



## **Bonds**

An instrument creating or acknowledging a present or future indebtedness (i.e. debentures, debenture stock, loan stock, bonds, certificates of deposit and any other instruments creating or acknowledging a present or future indebtedness), but excluding:

- (a) An instrument creating or acknowledging indebtedness for, or for money borrowed to defray, the consideration payable under a contract for the supply of goods and services;
- (b) A cheque or other bill of exchange, a bankers draft or a letter of credit (but not a bill of exchange accepted by a banker);
- (c) A banknote, a statement showing a balance on a bank account, or a lease or other disposition of property; and
- (d) A contract of insurance.

## **Branch**

A place of business which forms a legally dependent part of a bank and which carries out directly all or some of the transactions inherent in the business of the relevant bank. Conventional bank licensees operating as a branch are called overseas conventional bank licensees for the purposes of Volume 1 (see LR-A.1.8).

## **Branches of foreign bank licensees**

Foreign banks branches operating in the Kingdom of Bahrain.



# C

## **Capital adequacy**

A measure of the financial strength of a bank or securities firm, usually expressed as a percentage ratio of its capital to its assets.

## **Capital instrument(s)**

This includes all components of equity capital including ordinary equity, both voting and non-voting, and preference shares. It also includes convertible or hybrid financial instruments which are debt – like in character and which may be converted into equity. Also for financial institutions and insurance companies, any other financial instruments (such as subordinated debt) which are eligible as regulatory capital should also be included as capital instruments. Sukuk or senior debt instruments would not normally be regarded as “capital instruments” unless they have convertibility features. Equity-like contracts such as joint venture musharaka contracts (investments but not financing) are also included in this definition. The musharaka stake is classified as a capital instrument at onset. Shari'a compliant investment notes would be considered capital instruments if convertibility option/clause is available.

## **Capital redemption reserves**

Where shares of a company are redeemed or purchased wholly out of the company's profits, or by a fresh issue, the amount by which the company's issued share capital is diminished on cancellation of the shares shall be transferred to this reserve.

## **Central Counterparty (CCP)**

The party that intermediates in the settlement process between counterparties to contracts related to financial instruments, becoming the buyer to every seller, and the seller to every buyer in the market.

## **Certificate of commercial registration**

Certificate issued by Ministry of Commerce to businesses for carrying out specified activities as legal entities in the Kingdom of Bahrain.

## **Certificate of deposits**

This is a certificate issued by a bank or thrift that indicates a specified sum of money has been deposited with it for a specified period at a defined rate. A CD shows a maturity date and a specified interest rate, and can be issued in any denomination. The duration can be up to five years.

## **Certificate of incorporation**

A document granted by the Ministry of Commerce giving an entity its legal existence and right to function as an entity.



## **Certificates representing certain securities**

Certificates or other instruments which confer contractual or property rights:

- (a) In respect of any investment held by someone other than the person on whom the rights are conferred by the certificate or other instrument; and
- (b) The transfer of which may be effected without requiring the consent of that person.

## **CFT**

Combating the financing of terrorism.

## **Chief Executive, Chief Executive Officer or CEO**

Chief executive, chief executive officer or CEO. The board shall determine that person's actual title, which may be 'CEO', 'Chief Executive Officer', 'President', 'Managing Director', or another title.

## **Clawback**

A clawback requires that an employee (or ex-employee) return to the bank the variable remuneration that was previously paid out to him/her.

## **Close links**

A bank is defined as "closely linked" with:

- (a) Any person/entity which qualifies as a "controller" of the concerned bank as defined in Module GR-5 of the Rulebook;
- (b) Any entity which is a subsidiary of the bank;
- (c) Any entity which is an associate company of the bank.

## **Collateral**

Any form of property, security, guarantee or indemnity provided as security for a borrower.

## **Collective Investment Undertaking**

As defined in LR-1.3.34.

## **Commodity(ies)**

Raw materials or primary products, usually sold in bulk on an exchange (other than a financial instrument or cash) which are capable of delivery. Gold is therefore a commodity, but a gold ring or a gold future is not.

## **Compliance Directorate**

The unit within the Central Bank responsible for verifying licensees' compliance with the requirements of the CBB Law, the AML Law, this Module and other CBB Regulations relating to terrorist financing and money laundering, and for collating and monitoring suspicious transactions reports from licensees.

## **Conflict of interest**

A situation when a person or an entity has competing professional or personal obligations to other parties in a financial transaction (e.g. underwriting a securities transaction and simultaneously advising clients whether to buy the security or not) or in ongoing financial relationships (e.g. when a bank has a director of one of its major borrowers on its board), or personal or financial interests that would make it difficult to fulfil his duties fairly.



### **Connected person(s)**

- (a) The individual's spouse and his/her son, adopted son, stepson, daughter, adopted daughter, step-daughter, father, step-father, mother, step-mother, brother, step-brother, sister or step-sister, under his/her guardianship or control; or
- (b) A firm or corporation in which the individual or any persons mentioned in (a) has control of not less than 10% of the voting power in the firm or corporation, whether such control is exercised individually or jointly; or
- (c) Connected persons in relation to a firm or corporation means another firm or corporation in which the first-mentioned firm or corporation has control of not less than 10% of the voting power in that other firm or corporation.

### **Conspicuous notice**

Means a written statement in both Arabic and English languages which is easily visible and legible and displayed in all credit institutions' premises open to the public, such as websites, newspapers and other press notices.

### **Contingency plans**

A plan maintained to ensure the availability of critical resources and to facilitate the continuity of operations in an emergency situation.

### **Contingent liabilities**

In context of liabilities, those liabilities that do not yet appear on the balance sheet (ie. guarantees, supports, lawsuit settlements). For support or recourse, the trigger may occur at any time in the future, and the loss or expenditure is highly uncertain. Once timing and the quantification of expenditure becomes clearer, provisions should be raised in respect of the contingent liability. When the amount or the timing of the contingent item becomes certain, then it ceases to be a contingent item and should be entered into the balance sheet.

### **Control**

Has the same meaning as when used in IFRS.

### **Control environment**

The control environment means the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity.

### **Controlled function(s)**

Functions of board members and those persons undertaking executive positions at CBB conventional bank licensees (see LR-1A.1.2).

### **Controller**

A controller is a natural or legal person who either alone, or with his associates:

- (a) Holds 10% or more of the shares in the licensee ("L"), or is able to exercise (or control the exercise) of 10% or more of the voting power in L; or
- (b) Holds 10% or more of the shares in a parent undertaking ("P") of L, or is able to exercise (or control the exercise) of 10% or more of the voting power in P; or
- (c) Is able to exercise significant influence over the management of L or P.



### **Conventional bank licensee**

A bank licensed by CBB under Volume 1 of the CBB Rulebook, and generally operating according to conventional finance principals (as opposed to operating in accordance with Islamic finance principles).

### **Conventional retail bank licensee**

Conventional bank licensees which undertake the regulated banking services of in Paragraph LR-1.3.1 for both residents and non-residents of the Kingdom of Bahrain.

### **Correspondent Bank**

A bank which offers another bank (the respondent bank) an account through which the respondent bank may make payments for its own account and that of its clients. In brief, the correspondent bank acts as agent for the respondent bank. Correspondent relationships do not include transactions between banks as principals (e.g. in the wholesale market).

### **Counterparty**

A counterparty is the other person in a contract. Therefore, if bank A buys a security issued by company B from broker C, bank A has counterparty risk to broker C and Issuer Risk in respect of company B. A counterparty may include any legal person or arrangement, but generally would mean the following:

- (a) Any individual;
- (b) Any unincorporated body of persons;
- (c) Any company which is not a member of a group; or
- (d) Any group of companies; or
- (e) Any government of a State or any public bodies, local authorities or nationalised industries of a State.

### **Country Risk**

The risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporates, banks or governments are covered.

### **Credit derivatives**

The OTC derivatives instruments for the transfer of credit risk.

### **Credit risk**

Is defined as the potential that a bank's borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk exists throughout the activities of a bank in the banking book and in the trading book and includes on- and off-balance sheet exposures.



## **Custody**

In relation to clients' assets, this refers to the safeguarding and administering of a client's investments.

## **Customer**

A customer is:

Groups or individuals who have a business relationship with the organization--those who receive and use or are directly affected by the products and services of the organization.



# D

## **Dealing in financial instruments as agent**

Dealing in financial instruments as agent means buying, selling, subscribing for or underwriting any financial instrument on behalf of a client (see LR-1.3.25 ff).

## **Dealing in financial instruments as principal**

Dealing in financial instruments as principal means buying, selling, subscribing for or underwriting any financial instrument on one's own account (see LR-1.3.22 ff).

## **Default**

Failure to service a credit in accordance with agreed terms, e.g. late or incomplete payments of principal or interest, or infringement of any other material provision of the credit documentation.

## **Default Funds**

Also known as clearing deposits or guarantee fund contributions (or any other names), are clearing members' funded or unfunded contributions towards, or underwriting of, a CCP's mutualized loss-sharing arrangements.

## **Deposit(s) or deposit account(s)**

For the purposes of the CBB Law, refer to Resolution No. (23) of 2009 in respect of Definition of Deposit (see Appendix CP-2).

## **Deposit-taking**

The activity of accepting deposits (see LR-1.3.16).

## **Derivative(s)**

A generic term for a financial instrument whose value is dependent on, or derived from, the changes in the absolute or relative value of some underlying asset or market index or rate. Often used for futures, options and swaps.

## **Derivative contracts relating to commodities settled in cash**

Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).



## **Derivative contracts relating to commodities that can be physically settled**

Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF.

## **Designated market**

Any of the following investment exchanges:

- American Stock Exchange
- Australian Stock Exchange
- Bolsa Mexicana de Valores
- Bourse de Montreal Inc
- Channel Islands Stock Exchange
- Chicago Board of Trade
- Chicago Board Options Exchange
- Chicago Stock Exchange
- Coffee, Sugar and Cocoa Exchange, Inc
- Euronext Amsterdam Commodities Market
- Hong Kong Exchanges and Clearing Limited
- International Securities Market Association
- Johannesburg Stock Exchange
- Kansas City Board of Trade
- Korea Stock Exchange
- MidAmerica Commodity Exchange
- Minneapolis Grain Exchange
- New York Cotton Exchange
- New York Futures Exchange
- New York Stock Exchange
- New Zealand Stock Exchange
- Osaka Securities Exchange
- Pacific Exchange
- Philadelphia Stock Exchange
- Singapore Exchange
- South African Futures Exchange
- Tokyo International Financial Futures Exchange
- Tokyo Stock Exchange
- Toronto Stock Exchange

## **Digital Financial Advice**

Digital financial advice, also commonly known as robo-advice or automated advice is the advising on financial instruments as defined under LR-1.3.48 using algorithms and technology and with limited or no human financial advisor involvement.

## **Director**

A person who acts in the capacity of director of a firm (whether appointed or not, or whether titled director or not). In the case of a sole trader, unincorporated body or partnership, a person directing its affairs, or a partner (of a partnership). Directors are a controlled function (cf. LR-1A.1.2).

## **Disabled customer(s)**

For the purpose of Module BC ‘disabled’ means: all those who suffer from permanent total or partial physical or sensory impairments as a result of illness, accident, congenital or hereditary factor that may prevent them from accessing banking and financial services on an equal basis with others. These are the customers who have the ability to make their own decisions but need assistance to do so, due to their circumstances. The term ‘disabled’ includes visual impairments and hearing impairments and physical impairments.

People who have limited ability to take their own decisions (mental impairment) do not fall within this definition.



## E

### **Effective interest rates**

The annual rate at which an investment grows in value when interest is credited more often than once a year.

### **Electronic banking**

Electronic banking or ‘e-banking’ refers to the provision of retail and small value banking products and services through electronic channels. Such products and services can include deposit-taking, lending, account management, the provision of financial advice, electronic bill payment, and the provision of other electronic payment products and services such as electronic money.

### **Electronic money**

The investment, which is monetary value, as represented by a claim on the issuer, which is:

- (a) Stored on an electronic device;
- (b) Issued on receipt of funds; and
- (c) Accepted as a means of payment by persons other than the issuer.

### **Eligible Account(s)**

Means any Deposit Account (being a deposit in accordance with the Central Bank of Bahrain Resolution No. 23 of 2009 in respect of Definition of Deposit), and any other deposits or accounts similar in nature and which have similar characteristics which are approved by the CBB, regardless of currency, with the exception of bearer certificates of deposit.

### **Eligible depositor(s)**

Means any natural person, (resident or non-resident), holding an Eligible Account(s) with a conventional retail bank in the Kingdom. It does not include Deposits and Unrestricted Investments Accounts held with a conventional retail bank’s foreign branches operating outside the Kingdom.

### **Executive director**

Means a director who is an officer or employee, or is otherwise involved in day-to-day management, of either:

- (a) The bank;
- (b) Another company which is a controller of the bank;
- (c) Another company of which the bank is a controller; or
- (d) Another company which is controlled by a controller of the bank.

In this definition, the word “company” which is a controller of the bank excludes sovereigns such as government owned entities and government ministries.

### **Exposure(s)**

The components of an “Exposure” are outlined in more detail in Module CM-5.3. In summary, an exposure is the maximum loss which the firm might suffer if:

- (a) A counterparty or a group of connected counterparties fail to meet their obligations;  
or
- (b) It realises assets or off-balance sheet positions.



## F

### **Face value (see Murabaha)**

The amount of a Murabaha receivable based on the price agreed between the client and the Islamic bank including the latter's profit on the transaction.

### **FATF Member State**

A country which is a current member of the FATF, and which is not subject to NCCT listing or to any advisories by the FATF.

### **Fiduciary**

A legal entity that is authorised to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles.

### **Financial Action Task Force (FATF)**

The inter-governmental body responsible for developing and promoting policies, both nationally and internationally, to combat money laundering.

### **Financial contracts for differences**

Comprise rights under a contract for differences, or any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in:

- (a) The value or price of investment or property of any description;
- (b) Any currency;
- (c) The rate of interest in any currency or any index of such rates including interest rate options;
- (d) The level of any index which is derived for the prices of an investment or physical commodity (including index options) or;
- (e) Any combination of the above.

### **Financial entity(ies)**

An entity which conducts banking activities or other financial activities such as insurance, finance leasing, issuing credit cards, portfolio management, investment advisory, money changing, factoring, forfaiting, custodial and safekeeping services, investment management and other similar activities that are ancillary to the business of banking, whether or not the entity is regulated. For the sake of clarification, special purpose vehicles are included in the definition of financial entity if such SPVs conduct any of the activities outlined above.

### **Financial Institutions**

Institutions defined as financial institutions by the CBB (local financial institutions) or by foreign banking regulators (foreign financial institutions); examples of financial institutions include investment companies, insurance companies and currency exchange companies.



## **Financial instruments**

Any of the following instruments:

- (a) Transferable securities;
- (b) Islamic financial instruments;
- (c) Money market instruments;
- (d) Units in collective investment undertakings;
- (e) Derivative contracts other than commodity derivatives;
- (f) Derivative contracts relating to commodities settled in cash;
- (g) Derivative contracts relating to commodities;
- (h) Credit derivatives;
- (i) Financial contracts for differences;
- (j) Other derivative contracts;
- (k) Interests in real estate property;
- (l) Certificates representing certain securities; and
- (m) Rights or Interests in Financial Instruments.

## **Financial Instruments Trader**

A person who is engaged in buying or selling financial instruments.



## **Financial services (as used in Module LR)**

For the purpose of Module LR, financial services means:

- (a) Any dealings in any instrument defined as a financial instrument in any Volume of the CBB Rulebook;
- (b) Any arrangement where money, goods or services are made available to a person in exchange for his promise to pay at a later date and that arrangement is of a type habitually provided by another person for commercial gain;
- (c) Any arrangement in which money is solicited from the public in return for a promise of financial gain on, or safekeeping of, that money; or
- (d) Any product or other financial services in the area of regulated services (regulated by the CBB) marketed in the Kingdom of Bahrain.

## **Framework (as used in Module OM)**

For purposes of Chapter OM-8, Framework refers to the operational risk framework of a bank. An operational risk framework refers to the internal control systems of the bank and contains five inter-related elements:

- (a) Establishing the control culture within the bank and ensuring regular oversight by the Board and the Management of the bank;
- (b) Risk recognition and assessment;
- (c) Control activities and segregation of duties;
- (d) Information and communication; and
- (e) Monitoring activities and correcting deficiencies.

## **Future(s)**

Rights under a contract for the sale of a commodity or property of any other description under which delivery is to be made at a future date and at a price agreed on when the contract is made.



## **G**

### **General Manager**

The General Manager (of a firm whether incorporated in Bahrain or not) means a person who (regardless of actual title) is responsible, alone or jointly, for the conduct of the whole of the firm, or in the case of an overseas licensee, for all the activities of the branch. Equivalent to Chief Executive in the case of firms incorporated in Bahrain (cf. HC-2).

### **Going concern**

The idea that a company will continue to operate indefinitely, and will not go out of business and liquidate its assets.



# H

## **Head of function**

[Deleted in April 2015.]

## **Hedging**

A strategy designed to reduce investment risk using call options, put options, short-selling, or futures contracts. A hedge can help lock in profits. Its purpose is to reduce the volatility of a portfolio by reducing the risk of loss.

## **High-Quality Liquid Asset ('HQLA')**

An asset is considered to be HQLA if it can be easily and immediately converted into cash at little or no loss of value under stress scenarios.

## **Home Supervisor**

The competent regulatory authority in which the parent of a conventional bank licensee is incorporated, or in which the head office of a branch is incorporated.

## **Homogeneous loans**

Loan facilities bearing similar attributes.

## **Host Regulator/Supervisor**

The competent authority in which a branch of a foreign bank licensee is located or in which a subsidiary or joint venture of a foreign parent bank licensee is incorporated.

## **Hybrid instruments**

A package of two or more different kinds of risk management instruments that are usually interactive.



# I

## Independent director

**Determination by the Board.** Under Module HC an ‘independent director’ is a director whom the board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the bank, ownership structure of the bank, or for any other reason. The board’s determination should be a good faith finding after diligent review and full discussion.

**Formal Requirements.** ‘Independent director’ means a director of the bank who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the bank (not counting director’s remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) Was not an employee of the company;
- (b) Did not:
  - (i) Make to, or receive from, the bank payments of more than 31,000 BD or equivalent (not counting director’s remuneration);
  - (ii) Own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the bank payments of more than such amount;
  - (iii) Act as a general partner, manager, director or officer of a partnership or company that made to or received from the bank payments of more than such amount;
  - (iv) Have any significant contractual or business relationship with the bank which could be seen to materially interfere with the person’s capacity to act in an independent manner,
- (c) Did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the bank;
- (d) Was not engaged directly or indirectly as an auditor or professional advisor for the bank, and
- (e) Was not an associate of a Director or a member of senior management of the bank.

For purposes of this definition, the ‘payments’ referred to in paragraph (b)(i), (b)(ii) and (b)(iii) do not include monies received from dividends, deposits, investments and credit facilities arising from the bank’s normal business activities, but instead ordinarily refer to monies received (and/or payable during the period in question) for services rendered to the bank by the director or company concerned, or paid (or payable) by the concerned director or company to the bank for services provided by the bank. The CBB may in its absolute discretion vary any such requirement (and /or restrictive effect thereof) in writing on a case-by-case basis.

Dividends, deposits, investment accounts and credit facilities are to be considered under item (b)(iv) of this definition.



For the purpose of the definition of “independent director”:

- (a) Where the term “family” or “family member or related persons” is used reference is made to: spouse, father, mother, son(s) or daughter(s); and
- (b) Where the term “associate” is used reference is made to:
  - (i) Spouse, father, mother, son(s) or daughter(s); or
  - (ii) A person who is an employee or partner of the Director or of the firm represented or owned by the Director.

### **Independent non-executive director**

[deleted 01/2011]

### **Initial Margin**

A clearing member or client funded collateral posted to the CCP to mitigate the potential future exposure of the CCP to the clearing member, arising from the possible future change in the value of the transactions.

### **Insider trading**

The activity which is in summary:

- (a) The offence of which an individual is guilty if he has information as an insider and:
  - (i) In the circumstances described in (b), he deals in securities that are price-affected securities in relation to the information; or
  - (ii) (A) he encourages another person to deal in securities that are (whether or not that other knows it) price affected securities in relation to the information, knowing or having reasonable cause to believe that the dealing would take place in the circumstances mentioned in (b); or (B) he discloses the information, otherwise than in the proper performance of the functions of his employment, office or profession, to another person; and
- (b) The circumstances referred to in (a) are that the acquisition or disposal in question occurs on a regulated market, or that the person dealing relies on a professional intermediary or is himself acting as a professional intermediary.

### **Insurance licensee**

A person licensed under Volume 3 of the CBB Rulebook.

### **Interests in real estate property**

Any financial instrument giving right to or interests in real estate property other than owner occupied properties.

### **Intermediary**

A person who in the course of any business or profession invites other persons to make offers or proposals or to take other steps with a view to entering into contracts of insurance, but not a person who publishes such invitations only on behalf of, or to the order of, some other person.

### **Intra-group outsourcing**

Intra-group outsourcing is an arrangement in which one company within a group of companies provides services for another company within the same group that could also be or usually have been provided in-house.



### **Investment(s)**

An investment is any holding by a bank of capital instruments issued by a third party that is not a subsidiary of the bank. Therefore holdings of subordinated debt eligible as regulatory capital issued by another financial institution would be regarded as an "investment". In this case "holding" means legal or beneficial ownership of capital instruments.

### **Investment analyst**

An employee of a conventional bank licensee who prepares investment research.

### **Investment firm license**

A person licensed under Volume 4 of the CBB Rulebook.

### **Investment fund managers**

A commercial organisation that manages investors' money for a fee.

### **Investment research**

A document (other than a recommendation made to an individual customer), distributed outside a conventional bank licensee, which contains one or more of the following:

- (a) The results of research into an individual financial instrument;
- (b) Analysis of factors likely to influence the future performance of an individual financial instrument or its issuer; and
- (c) Advice or recommendations based on those results or that analysis.

### **Investment risk reserve**

Investment risk reserve is the amount appropriated by the Islamic bank out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

### **Islamic bank licensee**

A person licensed under Volume 2 of the CBB Rulebook.

### **Issued share capital**

Total amount of shares that have been issued.



# **J**

## **Joint accounts**

An agreement between two or more firms to share risk and financing responsibility in purchasing or underwriting securities, or an account owned jointly by two or more persons at a bank or brokerage house.



# L

## **Licensees**

Any person licensed by the CBB under any of the Volumes of the CBB Rulebook.

## **Licensed exchange(s)**

“Licensed exchange” means an exchange licensed in respect of the operation of its market in and from the Kingdom of Bahrain.

## **Liquidation**

The process of terminating a bank’s activities whereby all creditors are discharged either in full (a solvent liquidation), or in part (an insolvent liquidation) and any remaining funds are returned to the shareholders. This process normally takes place in accordance with the requirements of specific legislation in the country of incorporation. In Bahrain this includes the Bankruptcy and Preventative Settlements Act.



# M

## **MDB**

A multilateral development bank, which refers to any bank or lending or development body established by agreement between, or guaranteed by, two or more countries, territories or international organizations, other than for purely commercial purposes.

## **Major investment**

A major investment is defined as any acquisition or investment in the capital instruments of another entity by a Bahraini conventional bank licensee which is equivalent to or more than 10% of the Bahraini conventional bank licensee's consolidated total capital.

## **Malus**

A malus is a feature of a remuneration arrangement that reduces the amount of a deferred bonus, so that the amount of the payout is less than the amount of the bonus award.

## **Managing financial instruments**

Managing financial instruments means managing on a discretionary basis financial instruments on behalf of another person (see LR-1.3.27).

## **Managing Shari'a profit/loss sharing investment accounts**

Managing a Shari'a profit sharing investment account means managing an account, portfolio or fund, whereby a sum of money is placed with the service provider on terms that a return will be made according to an agreed Shari'a compliant profit-sharing arrangement, based either on a mudaraba or musharaka partnership (see LR-1.3.21).

## **Market**

“Market” means a place at which, or a facility (whether electronic or otherwise) by means of which, offers or invitations to sell, purchase or exchange securities or futures contracts (including options and derivatives) regularly made on a centralised basis, being offers or invitations that are intended or may reasonably be expected to result, whether directly or indirectly, in the acceptance or making, respectively, of offers to sell, purchase or exchange securities or futures contracts (whether through that place or facility or otherwise).

## **Market risk**

The risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks that are subject to the market risk capital requirement are:

- (a) Equity position risk in the trading book (see Chapter CA-10);<sup>1</sup>
- (b) Interest rate risk in trading positions in financial instruments in the trading book (see Chapter CA-9);
- (c) Foreign exchange risk (see Chapter CA-11); and
- (d) Commodities risk (see Chapter CA-12).

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<sup>1</sup> Equity positions in the banking book are dealt with under Paragraph CA-3.2.26.



## Material Risk-Takers

The following table provides a non-exhaustive list of examples of key positions that should be considered as material risk-takers:

<b>High-level category</b>	<b>Suggested business lines</b>
Heads of significant business lines and any individuals within their control who have a material impact of the bank's risk profile	Fixed income Foreign exchange Commodities Securitisation Sales areas Investment banking Commercial banking Equities Structured finance Lending Trading areas

Banks should consider how the examples in the above table apply in relation to their own organisational structure.



## **Memorandum of association**

The Memorandum of Association is the first constitutional document of a company containing fundamentals such as the name, the company's objects and powers, and its original share capital.

## **Mind and Management**

The presence of persons with executive authority to act on behalf of the bank and who have knowledge of the customers of the bank and their business, and the business of the bank where it acts as principal.

## **Minority interest**

Has the same meaning as used in IFRS.

## **MLRO**

Money Laundering Reporting Officer of each bank as more particularly described in Chapter FC 4.

## **Money Laundering**

Means the activity constituting a criminal offence pursuant to Article 2 of the AML Decree Law No. 4 dated 29<sup>th</sup> January 2001 (see Appendix FC 1). More generally, money laundering refers to the process of hiding or disguising the true origin or ownership of the proceeds of criminal activities.

## **Money-market instruments**

Those classes of instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.



# N

## **NIM**

Net Interest Margin.

## **Name lending**

Lending on the basis of personal relationships rather than financial fundamentals

## **Non-executive director**

Means any director who is not an executive director.



# O

## **Offering Shari'a Financing Contracts**

Entering into, or making arrangement for another person to enter into, a contract to provide finance in accordance with Shari'a principles, such as murabaha, bay muajjal, bay salam, ijara wa iktina and istisna'a contracts.

## **Off-balance Sheet ('OBS') Activities**

A banks' business that does not generally involve booking assets or liabilities. Examples include the granting of standby commitments, letters of credit and guarantees.

## **Off-site ATM**

Automated Teller Machine. An unattended electronic machine in a public place (other than the premises of the owning bank), connected to a data system and related equipment and activated by a bank customer to obtain cash withdrawals and other banking services.

## **Operating a collective investment undertaking**

Operating a collective investment undertaking means operating, establishing or winding up a Shari'a compliant CIU.

## **Operational Deposits**

The deposits generated by clearing, custody and cash management activities.

## **Operational risk**

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk<sup>2</sup>, but excludes strategic and reputational risk.

## **Option(s)**

An option is a contract giving the buyer the right, but not the obligation, to buy or sell any of the following at a specific price on or before a certain date:

- (a) Currency of the Kingdom of Bahrain or any other country or territory;
- (b) Palladium, platinum, gold or silver; or other commodity;
- (c) Option to acquire or dispose of a financial instrument of the kind specified by this definition by virtue of the above.

## **Originator Information**

- a) The name of the payer;
- b) The address of the payer; and
- c) The account number of the payer (where funds are being remitted from an account with your bank).

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<sup>2</sup> Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.



## **Other derivative contracts**

Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics 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), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alias, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

## **Outsourcing**

The use of a person to provide customised services to a licensee other than (a) a member of a licensee's board acting in his capacity as such (b) an individual employed by a licensee under a contract of service or (c) a licensed insurance manager providing services to a captive insurance firm.

## **Outsourcing Provider**

The person providing the customised services as described in the definition of "outsourcing"

## **Overseas conventional bank licensees**

[Deleted: 07/2017].

## **Overseas conventional retail bank licensee(s)**

[Deleted: 07/2017].

## **Over the counter (OTC)**

A decentralised market (as opposed to an exchange market) where geographically dispersed dealers are linked by telephones and computer screens. OTC trades are more often than not, denominated in non-standard amounts and on non-standard terms (e.g. maturity outside IMM dates). The term may also refer to trading in securities not listed on a stock or bond exchange.

## **Over-the-Counter Option**

An option traded off-exchange, as opposed to a listed stock option. The OTC option has a direct link between buyer and seller, has no secondary market, and has no standardization of striking prices and expiration dates.



# P

## **Parent or Parent Undertaking**

An undertaking or individual ("P"), which has the following relationship to another undertaking ("S"):

- (i) P holds (alone or, under an agreement with other shareholders) a majority of the voting rights in S;
- (ii) P (alone or in conjunction with its other subsidiary undertakings), has the right to appoint or remove a majority of its board of directors;
- (iii) P has the right to exercise a dominant influence over S, either through provisions contained in S's memorandum or articles, or a control contract; or
- (iv) P is a parent undertaking of a parent undertaking of S.

## **Participant(s)**

A (CIU) participant is a person with one or more holdings in a CIU.

## **Payment Initiation Service**

A 'payment initiation service' is an online service to initiate a payment order at the request of a payment service user from a payment account held at another account servicing payment service provider with the user's consent and authentication.

## **Payment Initiation Service Provider (s) or PISP(s)**

A person licensed by the CBB to undertake payment initiation services.

## **Person**

Unless the context requires otherwise, a natural or corporate person.

## **Personal account transaction**

A transaction undertaken by an employee of an Islamic bank licensee in a financial instrument, for his own account.

## **Politically Exposed Persons or 'PEPs'**

'Politically Exposed Persons' or 'PEPs' means individuals who are, or have been entrusted with prominent public functions in Bahrain or a foreign country, for example Heads of State or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations or important political party officials or persons who are or have been entrusted with a prominent function by an international organisation. Business relationships with family members 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.

## **Pooled funds**

In investments, the combination of funds for the benefit of a common project, or a group of investors who use their combined influence to manipulate prices.



## **Price risk**

The narrow definition of price risk as applied to securities is as follows: The risk that the value of a security (or a portfolio) will decline in the future. Price risk can apply to any financial instrument, commodity, or foreign exchange position. Therefore a wider definition used by hedge funds is: The risk that the value of position in financial instruments, commodities or foreign exchange will decline due to moves in market factors.

## **Principal**

Means the amount of credit received plus any other potential other charges, the total of which is subject to interest/profit.

## **Principal Amount**

The amount of any outstanding claim (excluding any interest and other expenses) on, or contingent liability in respect of, the relevant counterparty.

## **Profit equalization reserve**

Profit equalisation reserve is the amount appropriated by the Islamic bank out of the mudaraba income, before allocating the mudarib share, in order to maintain a certain return level of return on investment for investment account holders and increase owners' equity.

## **Providing credit**

Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit; and providing credit by way of finance leases, factoring, forfaiting and reverse repo transactions. It also includes the issuance or endorsement of letters of credit, the issuance of letters of guarantee, and other contingent credit activities (such as the underwriting of loans), the purchase on the secondary market of loans and other contracts of credit (that do not otherwise fall under the definition of financial instruments), and the provision of ancillary credit-related activities, such as advising on or arranging loans. It excludes money advanced to a person in consideration for debt instruments issued by the same person. (see LR-1.3.18).

## **PSE**

A public sector entity which is specified as such either by the central bank ('domestic PSE') or by an overseas banking supervisory authority ('foreign PSE'). Domestic PSEs include those entities owned by the government, excluding the subsidiaries of such institutions undertaking commercial activities.

## **Public Offering(s)**

An offer of securities to the general public. (see Rule BC-8.5.9).



## **Q**

### **Qualified by Exception**

A report issued by an appointed expert that is qualified and indicates that certain areas or issues remain unresolved or are unverifiable due to certain limitations imposed on the appointed expert's work. The report will clearly indicate the type and reason for exception and the action that would have been taken by the appointed experts had the mentioned limitation not been placed on their work.

### **Qualifying Holding(s)**

[Deleted in April 2015.]



# R

## **Real time promotion**

A real time promotion is a promotion made in the course of a personal visit, telephone conversation or other interactive dialogue.

## **Regulated banking services**

Any of the regulated activities permitted to be undertaken by a conventional bank licensee (see LR-1.3).

## **Relevant Authorities**

For the purposes of Module FC, relevant authority refers to the authorities listed in Rule FC-5.3.2.

## **Remuneration**

Means all types of compensation including but not limited to salary (fixed and variable bonus), fee and non-cash benefits such as health insurance, car housing, education, grants of stock, stock options or pension benefits.

## **Representative office**

A person who is licensed by the CBB as per Volume 5 (Specialised Licensee/Representative Office) Module AU to undertake only representative office functions:

- (i) Gather financial, economic and commercial information;
- (ii) Carry out general promotional activities; and/or
- (iii) Provide general assistance of a non specific nature to resident and non resident customers of the overseas entity/group the office is representing.

## **Repo**

- (a) an agreement between a seller and buyer for the sale of securities, under which the seller agrees to repurchase the securities, or equivalent securities, at an agreed date and, usually, at a stated price;
- (b) an agreement between a buyer and seller for the purchase of securities, under which the buyer agrees to resell the securities, or equivalent securities, at an agreed date and, usually, at a stated price.



## **Repo-style Transactions**

Transactions involving the sale and repurchase ('repo') of assets, purchase and resale ('reverse repo') of assets, as well as securities lending and securities borrowing. The term 'repo-style transactions' is generally taken to refer to any of the following transactions of a bank:

- i Sale and repurchase ('repo') of securities - the bank agrees to sell securities to a third party for cash with a commitment to repurchase the securities at an agreed price on an agreed future date.
- ii Securities lending - the bank lends securities to a third party and receives either cash or other securities from that party in exchange as collateral.
- iii Purchase and resale ('reverse repo') of securities - the bank agrees to acquire securities from a third party for cash, with a commitment to resell the securities at an agreed price on an agreed future date (i.e. the reverse of repo transactions).
- iv Securities borrowing - the bank borrows securities from a third party and gives cash or other securities to that party in exchange as collateral.

## **Reputational risk**

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

## **Resident**

This term includes:

- (a) Persons of whatever nationality whose normal place of residence or business is in Bahrain at the relevant time or whose main source of income is earned from Bahrain.
- (b) Persons who have been granted permanent resident permits in Bahrain.
- (c) Corporate and other institutions who have a permanent registered address in Bahrain and/or a commercial registration number including branches or subsidiaries located in Bahrain of overseas registered corporate or other institutions (excluding offshore companies). However, dealings with the offices of such corporations outside Bahrain in respect of non-Bahrain business is permitted.
- (d) Staff of Bahrain Embassies and Consulates living outside Bahrain.
- (e) Agents or Agencies located aboard but acting on behalf of or for the account of Bahrain residents.

## **Restricted Investment Accounts**

With this type of account, the investment account holder imposes certain restrictions as to where, how and for what purpose his funds are to be invested. Further, the Islamic bank may be restricted from commingling its own funds with the restricted investment account funds for purposes of investment. In addition, there may be other restrictions which investment account holders may impose. For example, investment account holders may require the Islamic bank not to invest their funds in instalment sales transactions or without guarantor or collateral or require that the Islamic bank itself should carry out the investment itself rather than through a third party. Restricted participating investment bonds and restricted participating investment units (investment funds) and any other accounts of similar nature are equivalent to the restricted investment accounts.



### **Retail customer(s)**

Defined in Rule BC-8.4.10. A retail customer means a customer who is not classified as an accredited investor under Rules BC-8.4.6.

### **Retail Deposits**

Deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

### **Rights or interests in Financial instruments**

Rights to or interests in all financial instruments.

### **ROAA**

Return on Average Assets.

### **ROAE**

Return on Average Equity.



# S

## **Safeguarding financial instruments**

Safeguarding financial instruments means the safeguarding and administration of financial instruments belonging to another person (see LR-1.3.29 ff).

## **Secured Obligations**

Obligations that are secured by legal rights on specifically designated assets owned by the bank which are used in the case of bankruptcy, insolvency or liquidation.

## **Securitised assets**

Creating a financial product such as a mortgage pass-through security, by pooling assets to back the instrument. Also refers to the replacement of loans and/or cash flows of financial intermediaries with negotiable securities issued in the capital markets.

## **Security(ies)**

“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;
- (g) Units to Real Estate Investment Trusts (REITs);
- (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.

## **Securities Financing Transactions (SFTs)**

Transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.



### **Self-Regulatory Organisation(s) or (SROs)**

“Self-Regulatory Organizations (SROs)” means any organisation licensed by the CBB under Volume 6 of the Markets and Exchanges (MAE) Module, or the Clearing, Settlement and Central Depository (CSD) Module, or any other organisation recognised as an SRO by the CBB.

### **Senior Manager/Management**

Refers to individuals occupying the position of CEO or head of function.

### **Service level agreement**

An agreement forming part of the Outsourcing Agreement between the outsourcing service provider and the bank that outlines the standards of service to be provided by the outsourcing service provider.

### **Shares**

A share or stock in the share capital of an enterprise, whether incorporated or unincorporated, but excluding units in collective investment undertakings.

### **Shareholders**

a) In relation to a share which is represented by a bearer certificate, the person who holds the certificate; b) in relation to a share that is not represented by a bearer certificate, the person whose name is entered on the register in relation to the share.



### **Shari'a board or shari'a supervisory board**

An independent body of specialized jurists who, collectively, are entrusted with the duty of directing, reviewing and supervising the activities of an Islamic financial institution in order to ensure that they are in compliance with Islamic Shari'a rules and principles.

### **Small Business Deposits**

Deposits that are considered as having similar characteristics to retail accounts, provided the total aggregated funding raised from one small business customer is less than BHD 500,000 (on a consolidated basis where applicable).

### **Soft dollar agreement**

An agreement in any form under which a conventional bank licensee receives goods or services in return for investment business put through or in the way of another person.

### **Sovereign debt**

A debt instrument issued by central government.

### **Spot transactions**

A foreign exchange transaction in which each party promises to settle the transaction two days after the transaction date.

### **Stable Deposits**

Amounts of the deposits that are fully insured by a deposit insurance scheme which represents a portion from the deposits in the transactional accounts (e.g. accounts where salaries are automatically deposited), as per the provisions of those regulations.

### **Subsidiary(ies)**

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent entity).

### **Subsidiary undertaking**

A company or other enterprise controlled by another company or enterprise (the parent or the holding company).

### **Succession plan**

A plan developed by a bank that would lay down the bank's strategy with respect to succession of various senior management or board positions within the bank.

### **Suspicious Transaction**

Any transaction or dealing which raises in the mind of a person involved, any concerns or indicators that such a transaction or dealing may be related to money laundering or terrorist financing or other unlawful activity. Examples of suspicious transactions are set out in Appendix FC 3.

### **Swap(s)**

A financial contractual agreement between two parties to exchange (swap) a set of payments that one party owns for a set of payments owned by the other party.



# T

## **Tranche**

One of several related securities offered at the same time. Tranches from the same issuer usually have different risk, reward, and/or maturity characteristics.

## **Transactional Accounts**

Accounts used to settle transactions pertaining to salaries and customer income.

## **Transfer Risk**

The risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country.

## **Transferable securities**

Those classes of securities which are negotiable, with the exception of instruments of payment. Transferable securities include:

- (a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;
- (b) bonds or other forms of securitized debt, including depositary receipts in respect of such securities;
- (c) warrants;
- (d) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.

## **Tranferee**

For purpose of Chapter GR-4, means any person licensed to carry out the transferred banking business.

## **Transferor**

For the purpose of Chapter GR-4, means the bank wishing to transfer any part of its banking business according to the provisions of Resolution No.(33) for the year 2012.

## **Trigger event(s) (as used in Section CA-2.1)**

A trigger event is the earlier of:

- (a) A decision that a write-off (without which the conventional bank licensee would be unviable) is necessary, as determined by the CBB; or
- (b) The decision to make a public sector injection of capital (or equivalent support) without which the conventional bank licensee would have become unviable (as determined by the CBB).

## **Trilateral meeting**

A meeting between a bank, an appointed expert and the CBB.



# **U**

## **Underwriting (as defined in Paragraph CM-5.3.6)**

A binding commitment by the reporting bank to purchase securities issued by, or provide syndicated loans/credit facilities to (as the case may be) an unconnected party (“the issuer” or “the borrower”) at a mutually agreed price.

## **Unencumbered Assets**

Assets free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell or transfer these assets. Liquid assets should not be used to cover trading positions or to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries).

## **Units in collective investment undertakings**

Rights or interests (however described) of the participants in a collective investment scheme.

## **Unrestricted Investment Accounts**

With this type of account, the investment account holder authorizes the Islamic bank to invest the account holder’s funds in a manner which the Islamic bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Islamic bank can commingle the investment account holder’s funds with its own funds or with other funds the Islamic bank has the right to use (e.g., current accounts). The investment account holders and the Islamic bank generally participate in the returns on the invested funds. Unrestricted participating investment bonds and any other accounts that are of similar nature are equivalent to unrestricted investment accounts.



# V

## **VaR**

An estimate expressed as a monetary value of the probability of losses on a portfolio of financial instruments based on a statistical analysis of historical market price trends, correlations, and volatilities.

## **Variation Margin**

A clearing member or client funded collateral posted on a daily or intraday basis, to a CCP based upon price movements of their transactions.



# W

## **Warrants**

Warrants are instruments that confer an entitlement to subscribe for shares, debenture and government and public securities. The rights conferred must be rights to 'subscribe' for the relevant investments. This means that they are rights to acquire the investments directly from the issuer of the investments and by way of the issue of new investments.

## **Wholesale banks**

[Deleted: 07/2017]

## **Wholesale Funding**

Deposits and obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships).

## **Without delay**

The phrase '*without delay*' means, ideally, within a matter of hours of a designation by the United Nations Security Council or its relevant Sanctions Committee (e.g. the 1267 Committee, the 1988 Committee, the 1718 Sanctions Committee or the 1737 Sanctions Committee). For the purposes of S/RES/1373(2001), the phrase '*without delay*' means upon having reasonable grounds, or a reasonable basis, to suspect or believe that a person or entity is a terrorist, one who finances terrorism or a terrorist organisation. In both cases, the phrase '*without delay*' should be interpreted in the context of the need to prevent the flight or dissipation of funds or other assets which are linked to terrorists, terrorist organisations, those who finance terrorism, and to the financing of proliferation of weapons of mass destruction, and the need for global, concerted action to interdict and disrupt their flow swiftly.



# Y

## **Yield curve**

The graphic depiction of the relationship between the yield on bonds of the same credit quality but over different maturities.

## **Yield to maturity (YTM)**

The percentage rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.