



# **HIGH-LEVEL CONTROLS MODULE**



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

## HC-A.1 Executive Summary

### *Purpose*

- HC-A.1.1 The purpose of this Module is to:
- (a) Explicitly reinforce the collective oversight and risk governance responsibilities of the board;
  - (b) Emphasise key components of risk governance such as risk culture, risk appetite and their relationship to a licensee's risk capacity;
  - (c) Delineate the specific roles of the board, board committees, senior management, chief financial officer, internal auditor, chief risk officer and head of compliance; and
  - (d) Strengthen licensees' overall checks and balances.
- HC-A.1.2 All references in this Module to 'he' or 'his' shall, unless the context otherwise requires, be construed as also being references to 'she' and 'her'.

### *Legal Basis*

**HC-A.1.3** This Module contains the CBB's Directive (as amended from time to time) relating to high-level controls and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). The Directive in this Module is applicable to licensees (including their approved persons).

**HC-A.1.4** All Rulebook content that is categorised as a Rule must be complied with by those to whom the content is addressed. Other parts of this Module are Guidance paragraphs which are considered best market practices and licensees are encouraged to implement the same.

### *Effective Date*

**HC-A.1.5** The new requirements in this amended Module are effective from January 2024 on which date the existing Module HC will become redundant, and any exemptions allowed under the existing Module will be subject to grandfathering requirements unless the relevant requirement has undergone change within this amended Module.



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

## HC-A.2 Module History

HC-A.2.1 This Module was first issued in July 2007. Following the issuance of the Corporate Governance Code by the Ministry of Industry and Commerce in March 2010, the Module was amended in January 2011 to be in line with the new Code and to include previous requirements that were in place in the originally issued Module HC. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

HC-A.2.2 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
HC-1 to HC-9	01/2011	Amendments due to introduction of new MOIC Corporate Governance Code.
HC-1.4	04/2011	Amendment made to reflect new Rules on attendance of Directors at Board of Directors meetings.
HC-6.3.4	04/2011	Added description of compliance officer's duties.
HC-6.5.3	04/2011	Guidance added dealing with the compliance function.
HC-B.2.2	01/2012	Clarified language related to corporate governance.
HC-1.2.5 and HC-1.6.3	01/2012	Clarified that the chairman of the Board may delegate specific duties dealt with in these Paragraphs.
HC-1.5.7 and HC-1.5.7A	01/2012	Clarified rule and guidance on the chairman of the Board.
HC-1.10.1	01/2012	Deleted last sentence.
HC-5.5.6	01/2012	Amended Paragraph.
Appendix B	01/2012	Disclosure to shareholders amended.
HC-1.9.5	07/2012	Clarified guidance.
Appendix A	07/2012	Clarified requirement for written report on performance evaluation for Audit Committee.
HC-7.2.5 and HC-10.7.6	10/2012	Clarified guidance on election of board members.
Appendix A	10/2012	Included reference to compliance under Committee Duties and Responsibilities.
HC-2.2.3 and HC-2.4.1	01/2013	Clarified scope of application for Rules.
HC-3.2.1	01/2013	Clarified guidance on appointment of internal auditor.
HC-1.3.7	04/2013	Clarified Rule on limits on number of directorships.
HC-2.2.4 and HC-2.2.6	10/2013	Removed reference to appointed representatives.
HC-1.3.2 and HC-10.1.8	10/2014	Corrected typo to be consistent with other Volumes of the CBB Rulebook.
HC-9.2.1	10/2014	Clarified language for Category 1 and 2 Islamic investment firms.
HC-10.9.2	10/2014	Amended guidance for Category 3 Islamic investment firms to appoint a minimum of one Shari'a advisor or scholar instead of having a Shari'a Supervisory Board.
HC-A.1.8	07/2015	Clarified the application of the comply or explain principle.
HC-6.4.2	07/2015	Changed Guidance to Rule so that the internal audit function must be independent and cannot be combined with any other function.



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## HC-A.2 Module History (continued)

### HC-A.2.2 (cont'd)

Module Ref.	Change Date	Description of Changes
HC-2.3.5 and HC-10.2.5A	04/2016	Added a requirement (or guidance, based on the category of license) for the investment firm licensee to have in place a board approved policy on the employment of relatives of approved persons.
HC-2.4.2A and HC-10.2.6A	04/2016	Added the requirement (or guidance, based on the category of license) to disclose to the board on annual basis relatives of any approved persons occupying controlled functions.
HC-2.3, HC-2.4 and HC-10.2	07/2016	Clarified application of Rules (or guidance, based on the category of license) for overseas licensees.
HC-7.2.1(j) and HC-10.7.2(j)	10/2017	Added requirement on the invitation of a CBB representative for any shareholders' meetings.
HC-1.2.2 & HC-1.11.5	01/2020	Amended Paragraphs on policy and procedures approval.
HC-5.3.3	04/2020	Added a new Paragraph on KPIs compliance with AML/CFT requirements.
HC-1.5.8	04/2021	Amended Paragraph on independent directors.
HC-1.5.10	04/2021	Added a new Paragraph on Directors Independence status.
HC-1.5.11	04/2021	Added a new Paragraph on termination of Board membership of a retired, terminated CEO.
HC-4.2.3	04/2021	Added a new Paragraph on notification on any change in board categorisation.
HC-1.11.2 – HC-1.11.4	01/2022	Deleted Paragraphs.
HC-1.11.6	01/2022	Deleted Paragraph
<b>Full Module HC</b>	<b>07/2023</b>	<b>New restructured HC Module supersedes the previous version.</b>

HC-A.2.3 Guidance on the implementation and transition to Volume 4 (Investment Business) is given in Module ES (Executive Summary).



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-B:</b>	<b>Scope of Application</b>

## HC-B.1 Scope of Application

**HC-B.1.1** The contents of this Module, unless otherwise stated, apply to Category 1, Category 2 and Category 3 investment firm licensees. The requirements in this Module must, however, be treated as guidance for Category 3 investment firm licensees, except for Paragraphs HC-1.1.3, HC-2.2.3, HC-2.3.3, HC-3.1.6, HC-7.1.1, HC-8.1.1, HC-9.1.1 and HC-9.1.2, which must be treated as Rules.

HC-B.1.2 The implementation of the rules in this Module should be commensurate with the size, complexity, structure, economic significance, risk profile and business model of the licensee and the group to which it belongs, if any. In cases of certain licensees (e.g. overseas investment firm licensees, smaller and limited scope firms where CBB assesses that certain specific rules in this Module are less relevant or too cumbersome to apply, it will be willing to consider alternative governance arrangement.

HC-B.1.3 For overseas investment firm licensees, all references in this Module to the board of directors or a board sub-committee should be interpreted as references to the Head Office (HO), Regional Office (RO) or the relevant function(s) at HO or RO (as applicable).

HC-B.1.4 Overseas investment firm licensees should satisfy the CBB that equivalent or similar arrangements are in place at either the branch or the parent entity level, and that such arrangements provide for effective high-level controls over activities conducted by the branch, commensurate with the size, complexity, nature and the risk profile of the branch. If the branch is unable to satisfy the CBB that the governance arrangements are equivalent, the CBB will assess the potential impact of risks and require that the licensee satisfy that compensating alternative arrangements are in place to address any risks relevant to the Bahrain operations.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-B:</b>	<b>Scope of Application</b>

## HC-B.2 Subsidiaries and overseas Branches of Bahraini Investment Firm Licensees

### HC-B.2.1

Licensees must ensure that, as a minimum, the same or equivalent provisions of this Module apply to their subsidiaries and overseas branches. In instances where local jurisdictional requirements are more stringent than those applicable in this Module, the local requirements are to be applied.

### HC-B.2.2

Where a licensee is unable to satisfy the CBB that its subsidiaries and overseas branches are subject to the same or equivalent arrangements, the CBB will assess the potential impact of risks to the licensee arising from inadequate high-level controls. In such instances, the CBB may impose certain restrictions on the licensee. Where weaknesses in controls are assessed by the CBB to pose a major threat to the financial soundness of the licensee and/or the financial stability in the Kingdom, then its license may be called into question.





MODULE	HC: High-Level Controls
CHAPTER	HC-1: Board's Overall Responsibilities

## HC-1.1 Responsibilities of the Board

### HC-1.1.1

The board of directors ("Board") of the licensee must:

- (a) Set the "tone at the top" and play a leading role in establishing the licensee's corporate culture and values, and oversee management's role in fostering and maintaining a sound corporate and risk culture;
- (b) Ensure that no individual or group of directors dominates the Board's decision-making and no individual or group has unfettered powers of decision;
- (c) Approve and oversee the development of the licensee's strategy, business plans and budget, and monitor their implementation;
- (d) Actively engage in the affairs of the licensee, keep up with material changes in the licensee's business and the external environment and act in a timely manner to protect the long-term interests of the licensee;
- (e) Convene and prepare the agenda for shareholder meetings;
- (f) Approve, and oversee the implementation of, the licensee's governance framework, risk management framework and all policies, and review the relevant parts of these as well as review key controls in case a new business activity is considered, or in case of material changes to the licensee's size, complexity, business strategy, markets or regulatory requirements, or the occurrence of a major failure of controls;
- (g) Establish, along with senior management and the chief risk officer, the licensee's risk appetite, considering the licensee's strategy, competitive and regulatory landscape, the licensee's long-term interests, risk exposure and ability to manage risk effectively, and oversee the licensee's adherence to the risk appetite statement, risk policy and risk limits;
- (h) Ensure that:
  - i. Adequate systems, controls, processes and procedures are implemented by senior management in line with the Board approved policies;
  - ii. The licensee has adequate processes to ensure full compliance with the requirements of the CBB Law, other relevant laws and the pertinent rulebooks;



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1:</b>	<b>Board's Overall Responsibilities</b>

## HC-1.1 Responsibilities of the Board (continued)

- iii. The licensee has a robust finance function responsible for accounting and financial data;
  - iv. The risk management, compliance and internal audit functions are properly positioned, staffed and resourced and carry out their responsibilities independently, objectively and effectively; and
  - v. Senior management maintains an effective and transparent relationship with the CBB;
- (i) Approve the annual financial statements and, where applicable, the interim financial statements;
  - (j) At minimum, approve the selection and oversee the performance of the chief executive officer (CEO), chief financial officer and heads of the risk management, compliance and internal audit functions;
  - (k) Actively oversee the remuneration system's design and operation for approved persons and monitor and review executive compensation and assess whether it is aligned with the licensee's remuneration policy, risk culture and risk appetite; and
  - (l) Consider the legitimate interests of shareholders and other relevant stakeholders in their decision-making process.

HC-1.1.2 The Board may, where appropriate, delegate some of its functions, but not its responsibilities, to the Board committees.

### HC-1.1.3

The members of the Board must exercise their fiduciary and other duties of care, candor and loyalty to the licensee in accordance with local laws and regulations.

### HC-1.1.4

Each director must:

- (a) Understand the Board's role and responsibilities pursuant to the CBB Rulebook, the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time;
- (b) Consider themselves as representing all shareholders and must act accordingly; and
- (c) Ensure that they receive adequate and timely information before each meeting and must study it carefully.



MODULE	HC: High-Level Controls
CHAPTER	HC-1: Board's Overall Responsibilities

## HC-1.2 Corporate Culture and Values

### HC-1.2.1

In order to promote a sound corporate culture, the Board must:

- (a) Approve an appropriate code of conduct/ ethics that must outline the acceptable practices that all Board members, senior management and other staff must follow in performing their duties, and the unacceptable practices/ conduct that must be avoided;
- (b) Set and adhere to corporate values that create expectations that the business must be conducted in a legal, professional and ethical manner, and oversee the adherence to such values by Board members, senior management and other employees;
- (c) Promote risk awareness within a strong risk culture, convey the Board's expectation that it does not support risk-taking beyond the risk appetite and risk limits set by the Board, and that all employees are responsible for ensuring that the licensee operates within the established risk appetite and risk limits;
- (d) Ensure that the corporate values, professional standards and codes of conduct it sets, together with supporting policies, are adequately communicated throughout the licensee; and
- (e) Ensure that all directors, senior management and other staff are aware that appropriate disciplinary or other actions will follow unacceptable behaviour, practices and transgressions.

### HC-1.2.2

Employees must be encouraged and be able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices. This must be facilitated through a well communicated and Board approved whistleblowing policy and adequate procedures and processes, consistent with applicable laws. This includes the escalation of material concerns to the CBB.



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	Board's Overall Responsibilities

## HC-1.2 Corporate Culture and Values (continued)

### HC-1.2.3

The Board of the investment firm licensees must:

- (a) Have oversight of the whistleblowing policy mechanism and ensure that senior management addresses legitimate issues that are raised;
- (b) Take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals, and that their rights are not undermined;
- (c) Approve and oversee how and by whom legitimate material concerns shall be investigated and addressed such as by an objective and independent internal or external body, senior management and/or the Board itself; and
- (d) Ensure that, after verifying the validity of the allegations, the person responsible for any misconduct is held accountable and is subjected to an appropriate disciplinary measure.

### HC-1.2.4

The Board must establish a conflict of interest policy on identifying and managing potential conflicts of interest related to all approved persons. The policy must include:

(a) An approved person's duty to:

- i. Avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest. An approved person shall be considered to have a "personal interest" in a transaction with a company if they themselves, or a member of their family (i.e. spouse, father, mother, sons, daughters, brothers or sisters), or another company of which they are a director or controller, are a party to the transaction or have a material financial interest in the transaction or are expected to derive material personal benefit from the transaction (transactions and interests which are de minimis in value should not be included);
- ii. Promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
- iii. Abstain from getting involved in or voting on any matter where they may have a conflict of interest or where their objectivity or ability to properly fulfil duties to the licensee may be otherwise compromised. Any decision to enter into a transaction in which an approved person appears to have a material conflict of interest must be formally and unanimously approved by the entire Board;



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	Board's Overall Responsibilities

## HC-1.2 Corporate Culture and Values (continued)

### HC-1.2.4

(cont'd)

- iv. Act with honesty, integrity and care for the best interest of the licensee and its shareholders and other stakeholders;
  - v. Not use properties of the licensee for their personal needs;
  - vi. Not misuse or misappropriate the licensee's assets or resources;
  - vii. Not disclose confidential information of the licensee or use it for their personal profit or interest;
  - viii. Make every practicable effort to arrange their personal and business affairs to avoid a conflict of interest with the licensee;
  - ix. Not take business opportunities of the licensee for themselves; and
  - x. Not compete in business with the licensee or serve the licensee's interest in any transaction with a company in which they have a personal interest.
- (b) Examples of where conflict of interest may arise when serving as an approved person;
- (c) A rigorous review and approval process for approved persons to follow before they engage in certain activities (such as serving on another Board) so as to ensure that such activity will not create a conflict of interest;
- (d) Adequate requirements that transactions with related parties must be made on an arm's length basis;
- (e) Sufficient restrictions on and/or a robust and transparent process for the employment of relatives of approved persons;
- (f) Requirements for properly managing and disclosing conflict of interest that cannot be prevented;
- (g) Requirements for all approved persons to annually declare in writing all their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager or other form of significant participation) to the Board or a designated Board committee; and
- (h) The way in which the Board will deal with any non-compliance with the policy.



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	Board's Overall Responsibilities

## HC-1.2 Corporate Culture and Values (continued)

**HC-1.2.5** Where there is a potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgement, to address the conflict.

**HC-1.2.6** The CEO/General Manager of the investment firm licensees must disclose to the Board of directors on an annual basis those individuals who are occupying controlled functions and who are relatives of any other approved person within the licensee.



MODULE	HC: High-Level Controls
CHAPTER	HC-1: Board's Overall Responsibilities

### HC-1.3 Oversight of Senior Management

#### HC-1.3.1

The Board must exercise proper oversight of senior management against formal performance and remuneration standards consistent with the long-term strategic objectives and the financial soundness of the licensee. In doing so, the Board must:

- (a) Meet regularly with senior management;
- (b) Subject senior management to annual performance assessment and document such assessments;
- (c) Ensure that approved persons' collective knowledge and expertise remain appropriate given the licensee's nature of business and risk profile;
- (d) Ensure that senior management's actions are in full compliance with applicable laws and regulations and consistent with the strategy, business plan and policies approved by the Board, including risk appetite;
- (e) Question, challenge and critically review the explanations and information provided by senior management; and
- (f) Ensure that appropriate succession plans are in place for all approved persons within senior management (provided that such plans are subject to review in case of any changes to approved persons within senior management).



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Board Formation

## HC-2.1 Board Composition

### HC-2.1.1

The Board must comprise of individuals with a balance of skills, diversity and expertise, who individually and collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the licensee.

### HC-2.1.2

The Board must have a sufficient number of independent directors. In case of a Bahraini investment firm licensees with a controller, at least one-third of the Board must be independent.

### HC-2.1.3

If the Bahraini investment firm licensee has a controller or a group of controllers acting in concert, such person(s) must recognise their specific responsibility to the minority shareholders as Board members have responsibilities to the licensee's overall interests, regardless of who appoints them.

### HC-2.1.4

The CBB may call upon each independent director at its discretion to have a general discussion on the affairs of the Bahraini investment firm licensee.





MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Board Formation

## HC-2.2 Board Member Selection

**HC-2.2.1** The Board must have a clear and rigorous process for identifying, assessing and selecting Board candidates. The Board, and not management, must nominate the candidates for shareholders' approval.

**HC-2.2.2** Board candidates must:

- (a) Possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind necessary to discharge their responsibilities on the Board in light of the licensee's business and risk profile;
- (b) Have a record of integrity and good repute;
- (c) Have sufficient time to fully carry out their responsibilities;
- (d) Not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:
  - i. Other approved persons, controllers or other connected parties;
  - ii. Past or present positions held; or
  - iii. Personal, professional or other economic relationships with other approved persons (or with other entities within the group); and
- (e) Not have more than two directorships of investment firm licensees inside Bahrain. Licensees may approach the CBB for exemption from this limit where the Directorships concern financial institutions within the same group.

HC-2.2.3 Board candidates should not hold more than three directorships in public companies in Bahrain. In case such directorships exist, there must be no conflict of interest, and the Board must not propose the election or re-election of any director where such conflict of interest exists

**HC-2.2.4** Nominated directors of a Bahraini investment firm licensee must possess the requisite experience and competencies specified in Module TC (Training and Competency).

**HC-2.2.5** A CEO of a Bahraini investment firm licensee who has resigned or retired, may serve as a Board member of the same licensee but not as an independent director.



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Board Formation

## HC-2.2 Board Member Selection (continued)

### HC-2.2.6

Each proposal by the Board to the shareholders for election or re-election of a director must be accompanied by a recommendation from the Board and the following specific information:

- (a) The term to be served, which may not exceed three years;
- (b) Biographical details and professional qualifications;
- (c) In the case of an independent director, a statement that the Board has determined that the applicable rules and criteria for independent director have been met;
- (d) Any other directorships held;
- (e) Particulars of other positions which involve significant time commitments; and
- (f) Details of relationships (if any) between:
  - i. the candidate and the licensee, and
  - ii. the candidate and other approved persons of the licensee.

### HC-2.2.7

Newly appointed directors must be made aware of their duties before their nomination, particularly as to the time commitment required.



MODULE	HC: High-Level Controls
CHAPTER	HC-2: Board Formation

### HC-2.3 Board Members' Appointment and Induction

#### *Board Members' Appointment*

**HC-2.3.1** The chairperson of the Board must confirm to shareholders when proposing re-election of a director that, following a formal performance evaluation, the person's performance continues to be effective and they continue to demonstrate commitment to the role.

**HC-2.3.2** Where an independent director has served three consecutive terms on the Board, such director will lose his independence status and must not be classified as an independent director if reappointed.

**HC-2.3.3** Bahraini investment firm licensees must have a written appointment agreement with each director which recites the directors' powers, duties and responsibilities, accountability, term, the time commitment envisaged, the committee assignment (if any), remuneration, expense reimbursement entitlement and their access to independent legal or other professional advice at the expense of the licensee when needed to discharge their responsibilities as directors.

#### *Board Members' Induction*

**HC-2.3.4** The Board must ensure that:

- (a) Sufficient time, budget and other resources are allocated annually for the Board members' induction programmes;
- (b) Each new director receives a formal and tailored induction and has access to ongoing training on relevant issues which may involve internal or external resources to ensure their effective contribution to the Board from the beginning of their term; and
- (c) The induction programmes include meetings with senior management, visits to the investment firm licensee's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, and meetings with internal and external auditors and legal counsel.

**HC-2.3.5** Board members must understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the investment firm licensee.

**HC-2.3.6** All continuing directors must be invited to attend orientation meetings and all directors must continually educate themselves as to the licensee's business and corporate governance.



MODULE	HC:	High-Level Controls
CHAPTER	HC-3:	Board's Structure and Practices

## HC-3.1 Organisation and Assessment of the Board

### HC-3.1.1

The Board of a Bahraini investment firm licensees must:

- (a) Adopt a formal Board charter specifying matters which are reserved for it, which must include, but are not limited to, the specific requirements and responsibilities of directors stipulated in this Module and the Commercial Companies Law;
- (b) Structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the Board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of key issues;
- (c) Maintain and periodically update its governance structure, organisational rules, by-laws and other similar documents setting out its organisation, rights, responsibilities and key activities; and
- (d) Carry out annual evaluation and assessments – alone or with the assistance of external experts – of the Board, its committees and individual Board members. This must include:
  - i. Assessing how the Board operates in terms of the requirements of the CBB Rulebook and the Commercial Companies Law;
  - ii. Evaluating the performance of each committee considering its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee;
  - iii. Reviewing each director's work, their attendance at Board and committee meetings, and their independence and constructive involvement in discussions and decision making;
  - iv. Reviewing the Board's current structure, size, composition as well as committees' structures and composition in order to maintain an appropriate balance of skills, diversity and experience and for the purpose of planned and progressive refreshing of the Board; and
  - v. Recommendations for new directors to replace long-standing members or those members whose contribution to the Board or its committees is not adequate.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

**HC-3.1 Organisation and Assessment of the Board (continued)**

**HC-3.1.2** Where the Board has serious reservations about the performance or integrity of a Board member, or he ceases to be qualified, the Board must take appropriate action and inform the CBB accordingly.

**HC-3.1.3** The Board must report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.

**HC-3.1.4** Executive directors must provide the Board with all relevant business and financial information within their knowledge and must recognise that their role as a director is different from their role as a member of management.

**HC-3.1.5** Non-executive directors must be fully independent of management and must constructively scrutinise and challenge management and executive directors.

**HC-3.1.6** The Board must maintain appropriate records of meeting minutes, including key points of discussions held, recommendations made, decisions taken and dissenting opinions (if any).

**HC-3.1.7** The Board must meet at least four times a year to enable it to discharge its responsibilities effectively, and half of all Board meetings in any financial year must be held in the Kingdom of Bahrain.

**HC-3.1.8** Individual Board members must attend at least 75% of all Board meetings in a given financial year, whether in-person or virtually (if needed) so as to enable the Board to discharge its responsibilities effectively (see table below). Voting and attendance proxies for Board meetings are prohibited.

Meetings per year	75% Attendance requirement
4	3
5	4
6	5
7	5
8	6
9	7
10	8



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Board's Structure and Practices</b>

### HC-3.1 Organisation and Assessment of the Board (continued)

#### HC-3.1.9

The absence of Board members at Board and committee meetings must be noted in the relevant meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Board members stand for re-election (e.g. Board member XYZ attended xx% of scheduled meetings this year).

#### HC-3.1.10

If a Board member has not attended at least 75% of Board meetings in any given financial year, the licensee must notify the CBB, within one month from its financial year-end, indicating which member has failed to satisfy this requirement, their level of attendance and the reason for non-attendance. The CBB shall then consider the matter and determine whether enforcement action pursuant to Article 65 of the CBB Law is appropriate.

#### HC-3.1.11

Board governance framework should require members to step down if they are not actively participating in Board meetings.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Board's Structure and Practices</b>

## HC-3.2 Board Chairperson

### HC-3.2.1

The Chairperson of the Board of the Bahraini investment firm licensees must:

- (a) Not be an executive director;
- (b) Not be the same person as the CEO. This applies also to the deputy chairperson;
- (c) Commit sufficient time to perform their role effectively;
- (d) Play a critical role in promoting mutual trust, efficient functioning of the Board, open discussion, constructive dissent from decisions and constructive support for decisions after they have been made;
- (e) Ensure that all directors receive an agenda, minutes of prior meetings and adequate background information on each agenda item in writing well before each Board meeting;
- (f) Encourage and promote critical and objective discussion and ensure that dissenting views can be freely expressed, discussed and recorded in the minutes of the Board meeting; and
- (g) Ensure that Board decisions are taken on sound and well-informed basis.



MODULE	HC: High-Level Controls
CHAPTER	HC-3: Board's Structure and Practices

### HC-3.3 Board Committees

**HC-3.3.1** Bahraini investment firm licensees must comply with the requirements of this Section for each of the Board committees it establishes. The Board must at minimum establish an Audit Committee.

**HC-3.3.2** Objectivity and independence must be ensured by the selection of appropriate Board members in each committee.

**HC-3.3.3** Committees may be combined provided that no conflict of interest arises between the duties of such committees, and subject to the CBB's prior approval.

**HC-3.3.4** Every committee must have a formal written charter or other instrument which sets out its roles and responsibilities, how the committee will report to the Board, what is expected of committee members and any tenure limits for serving on the committee.

**HC-3.3.5** Each committee must have the resources and the authority necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of external legal, accounting or other advisors as it deems necessary.

**HC-3.3.6** Each Board committee must maintain appropriate records of their deliberations and decisions in their meeting minutes, including key points of discussions held, recommendations made, decisions taken (and update on their subsequent implementation) and dissenting opinions (if any).

**HC-3.3.7** Each committee must prepare and review with the Board an annual performance evaluation of the committee and its members and must recommend to the Board any improvements deemed necessary or desirable to the committee's charter or composition. The report must be in the form of a written report presented at any regularly scheduled Board meeting.

**HC-3.3.8** Members of each committee must exercise judgment free from any personal conflicts of interest or bias.

HC-3.3.9 The Board should consider occasional rotation of membership and chair of the Board committees provided that doing so does not impair the collective skills, experience and effectiveness of these committees.





MODULE	HC: High-Level Controls
CHAPTER	HC-3: Board's Structure and Practices

#### HC-3.4 Audit Committee

HC-3.4.1 The audit committee of the Bahraini investment firm licensee must have at least three directors of which the majority must be independent and have no conflict of interest with any other duties they have.

HC-3.4.2 The Chairperson of the audit committee must:

- (a) Be independent; and
- (b) Not be the chairperson of the board, unless he is considered independent.

HC-3.4.3 The CEO and other senior management of the Bahraini investment firm licensee must not be members of the audit committee.

HC-3.4.4 The audit committee members must have sufficient experience in audit practices, financial reporting and accounting.

HC-3.4.5 The audit committee must meet:

- (a) At least four times a year.
- (b) At least twice a year with the external auditor.
- (c) At least once a year in the absence of the CEO and any executive management, but in presence of the Head of Compliance, Internal Auditor and CRO.

HC-3.4.6 The audit committee must, at minimum:

- (a) Ensure that the licensee has effective and adequate policies covering all its business activities, internal audit, financial reporting, compliance, risk management, prevention of frauds and cyber security breaches, etc.;
- (b) Oversee the financial reporting process;
- (c) Oversee and interact with the licensee's internal and external auditors;
- (d) Review the integrity of the licensee's financial statements;
- (e) Recommend to the Board, based on a Board approved objective criteria, the appointment, remuneration, dismissal and rotation of external auditors;
- (f) Review and approve the internal and external audit and compliance scope;



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

#### HC-3.4 Audit Committee (continued)

- (g) Receive internal and external audit and compliance reports and ensure that senior management is taking necessary corrective actions in a timely manner to address any control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors, the head of compliance and other control functions;
- (h) Assess once a year the extent to which the licensee is managing its compliance risk effectively;
- (i) Ensure that the agenda for their meetings includes compliance and internal audit issues at least every quarter;
- (j) Recommend the appointment and dismissal of the heads of internal audit and compliance functions. The licensee must also discuss the reasons for their dismissal with the CBB.
- (k) Make a determination, at least once a year, of the external auditor's independence;
- (l) Review and supervise the implementation and enforcement of the licensee's code of conduct, unless such mandate is delegated to another committee such as the Governance Committee; and
- (m) Ensure that senior management establishes and maintains an adequate and effective internal control systems, procedures and processes for the business of the licensee.

HC-3.4.7 In case the licensee has a different board committee overseeing and monitoring compliance issues, then all of the above compliance-related requirements in Paragraph HC-3.4.6 can be handled by such committee instead.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

### **HC-3.5 Risk Committee**

HC-3.5.1 Where a Bahraini investment firm licensee establishes a Board risk committee, such committee should have at least three directors of which the majority, including the chairperson should be independent. In addition, the committee members should have experience in risk management issues and practices and have no conflict of interest with any other duties they may have.

HC-3.5.2 There should be effective communication and coordination between the audit committee and the risk committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the licensee.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

## HC-3.6 Remuneration Committee

HC-3.6.1 Where a Bahraini investment firm licensee establishes a Board remuneration committee, such committee should have at least three directors.

HC-3.6.2 Members of the remuneration committee should be independent of any risk-taking function or committee.

HC-3.6.3 The remuneration committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairperson should be an independent director.

HC-3.6.4 The remuneration committee should meet at least twice a year.

HC-3.6.5 The remuneration committee should:

- (a) Recommend to the Board:
  - i. An appropriate remuneration policy designed to reduce employees' incentives to take excessive and undue risk, which must be approved by the shareholders; and
  - ii. A fair and internally transparent remuneration system, which includes relevant performance measures and effective controls;
- (b) Ensure on an annual basis that the remuneration policy and its implementation:
  - i. Are in full compliance with CBB requirements;
  - ii. Are consistent with the licensee's strategy, culture, long-term business objectives, risk appetite, performance and control environment; and
  - iii. Are creating the desired incentives for managing risk, capital and liquidity.
- (c) Work closely with the risk committee in evaluating the incentives created by the remuneration system. The risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
- (d) Approve the remuneration package and amounts for each approved person and material risk-taker, as well as the total variable remuneration to be distributed based on the results of the performance evaluation system and taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

### **HC-3.6 Remuneration Committee (continued)**

- (e) Regularly review remuneration outcomes, risk measurements, and risk outcomes for consistency with Board's approved risk appetite;
- (f) Question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payout;
- (g) Recommend Board member remuneration based on their attendance and in compliance with the Commercial Companies Law;
- (h) Evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain by means of both quantitative and qualitative key indicators. It must demonstrate that its decisions are consistent with the assessment of the licensee's financial condition and future prospects; and
- (i) Obtain feedback on performance evaluation of the Chief Risk Officer, Chief Internal Auditor and Head of Compliance from the designated Board committee responsible for oversight of these functions.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Board's Structure and Practices</b>

## HC-3.7 Corporate Governance Committee

HC-3.7.1 The Bahraini investment firm licensee should assign to one of its senior management the role of a corporate governance officer who is responsible for the tasks of verifying the licensee's compliance with corporate governance rules and regulations.

HC-3.7.2 The Board should establish a corporate governance committee for developing and recommending changes from time to time in the licensee's corporate governance policy framework. Such committee should have at least three directors of which the majority should be independent.

HC-3.7.3 The corporate governance committee should:

- (a) Oversee and monitor the implementation of the governance policy framework by working with the management and the Audit Committee; and
- (b) Provide the Board of directors with reports and recommendations based on its findings in the exercise of its functions.

HC-3.7.4 The responsibilities of the corporate governance officer may be assumed by the head of compliance and should include, at minimum:

- (a) Coordinating and following up on the licensee's compliance with corporate governance requirements;
- (b) Ensuring that the corporate governance policies, their implementation and related internal controls are consistent with the regulatory and legal requirements;
- (c) Working closely with the Board and/or the relevant Board committee to improve the governance framework of the licensee; and
- (d) Reviewing the annual corporate governance disclosure to ensure that its contents are in conformity with the licensee's internal policies and the CBB rulebook requirements.



MODULE	HC: High-Level Controls
CHAPTER	HC-4: Group Structures

## HC-4.1 Governance of Group Structures

**HC-4.1.1** The Board of a Bahraini investment firm licensee which acts as a parent must:

- (a) Have the overall responsibility for the group and exercise adequate oversight over subsidiaries and overseas branches while respecting the independent legal and governance responsibilities that might apply to subsidiary Boards;
- (b) Establish, subject to CBB's approval, a group structure (including the legal entity and business structure) and a group corporate governance framework with clearly defined roles and responsibilities at both the parent licensee's and the subsidiaries' level as may be appropriate based on the complexity, risks and significance of the subsidiaries;
- (c) Set adequate and comprehensive criteria for composing Boards at subsidiaries' level;
- (d) Have a clear strategy and group policy for establishing new structures and legal entities, and ensure that they are consistent with the policies and interests of the group;
- (e) Have sufficient resources at group and subsidiaries levels to monitor risks and compliance at the level of the group and its subsidiaries;
- (f) Pay special attention and due care to any significant subsidiary based on its risk profile or systemic importance or due to its size relative to the parent licensee;
- (g) Assess and discuss material risks and issues that might affect the group and its subsidiaries and overseas branches;
- (h) Establish effective group functions at the parent licensee, including but not limited to, internal audit, compliance, risk management and financial controls to whom the relevant subsidiaries' functions must report;
- (i) Maintain an effective relationship, through the subsidiary Board or direct contact, with the regulators of all subsidiaries and overseas branches; and



MODULE	HC: High-Level Controls
CHAPTER	HC-4: Group Structures

## HC-4.1 Governance of Group Structures (continued)

- (j) ensure that:
- i. The group has appropriate policies and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions;
  - ii. The group is governed and operating under clear group strategies, business policies and specific set of group policies on risk management, internal audit, compliance and financial controls;
  - iii. There are no barriers to exchanging information between the subsidiaries and the parent licensee and that there are robust systems in place to facilitate the exchange of information to enable the parent licensee to effectively supervise the group and manage its risks; and
  - iv. Adequate authority is available to each subsidiary pursuant to local legislations.

### *Subsidiaries' Boards*

HC-4.1.2

Boards and senior management of subsidiaries of Bahraini investment firm licensees must remain responsible for developing effective governance and risk management framework for their entities and must clearly understand the reporting obligations they have to the parent licensee.

HC-4.1.3

The strategy, business plan, policies, risk governance framework, corporate values and corporate governance framework of each subsidiary must align with group strategy and policies, and the subsidiary Board must make necessary adjustments where a group policy conflicts with an applicable legal or regulatory provision or prudential rule or would be detrimental to the sound and prudent management of the subsidiary.

HC-4.1.4

Material risk-bearing subsidiaries and overseas branches must be captured by the licensee-wide risk management system and must be part of the overall risk governance framework.





MODULE	HC: High-Level Controls
CHAPTER	HC-5: Remuneration of Approved Persons

## HC-5.1 Remuneration of Approved Persons

### HC-5.1.1

Bahraini investment firm licensees must have in place a Board approved remuneration policy. Licensees must ensure that all approved persons are remunerated fairly and responsibly. More specifically, the remuneration must be sufficient to attract, retain and motivate persons.

### HC-5.1.2

The performance evaluation and remuneration of senior management and staff of the licensees must be based, among other factors, on their adherence to all relevant laws, regulations and CBB rulebook requirements, including but not limited to AML/CFT requirements in the FC module.

### HC-5.1.3

Remuneration of non-executive directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.



MODULE	HC:	High-Level Controls
CHAPTER	HC-6:	Senior Management

## HC-6.1 Senior Management

### HC-6.1.1

The Board must establish an adequate organisational structure that promotes accountability and transparency and facilitates effective decision-making and good governance throughout the licensee. This includes clarity on the role, authority and responsibility of the various positions within senior management, including that of the CEO.

### HC-6.1.2

Senior management must:

- (a) Be selected through an appropriate promotion or recruitment process which considers the qualifications and competencies required for the position in question;
- (b) Have the necessary experience, competencies, personal qualities and integrity to manage the businesses and employees under their supervision;
- (c) Be subject to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility;
- (d) Act within the scope of their responsibilities which must be clearly defined;
- (e) Independently assess and question the policies, processes and procedures of the licensee, with the intent to identify and initiate management action on issues requiring improvement;
- (f) Not interfere in the independent duties of the risk management, compliance and internal audit functions;
- (g) Carry out and manage the licensee's activities in compliance with all laws and regulations, and in a manner consistent with the business strategy, risk appetite, business plans and remuneration and other policies approved by the Board;
- (h) Have a robust governance framework for all management committees;
- (i) Not primarily control the remuneration system in the licensee;
- (j) Actively communicate and consult with the control functions on management's major plans and activities so that the control functions can effectively discharge their responsibilities; and
- (k) Provide the Board and its committees with timely, complete, accurate and understandable information and documents so that they are equipped for upholding their responsibilities, and keep them adequately informed and updated on a timely basis about material issues including:
  - i. Changes in the implementation of business strategy, risk strategy and risk appetite;
  - ii. The licensee's performance and financial condition;
  - iii. Breaches of risk limits or regulations;
  - iv. Internal control failures, frauds and cyber-security incidents;
  - v. Legal or regulatory concerns;
  - vi. Customer complaints; and
  - vii. Issues raised as a result of the licensee's whistleblowing policy.



MODULE	HC: High-Level Controls
CHAPTER	HC-7: Compliance

## HC-7.1 Compliance

### HC-7.1.1

The Board must:

- (a) Oversee the management of the licensee's compliance risk;
- (b) Establish an independent compliance function and approve an appropriate compliance framework for the licensee based on its size and complexity of its operations;
- (c) Set priorities for the management of its compliance risk in a way that is consistent with its risk management strategy and structures; and
- (d) Approve the licensee's compliance policy for identifying, assessing, monitoring, reporting and advising on compliance risk.

### HC-7.1.2

The compliance function and the internal audit function must be separate.

### HC-7.1.3

The Board, Audit Committee or the designated Board committee and senior management must:

- (a) Ensure that, based on an agreed remedial action plan, all compliance findings are resolved within a reasonable period of time to be set based on level and magnitude of risk;
- (b) Not restrict the compliance function from reporting any irregularities or breaches that are identified as a result of its work or investigations, and must ensure that such reporting can be done without fear of retaliation or disfavour from management, board members or other staff members;
- (c) Ensure that the head of compliance and his staff are not placed in a position where there is a possible conflict of interest between their compliance responsibilities and any other responsibilities they may have;
- (d) Not consider the compliance function as a cost center; instead it should be viewed as an activity that helps the licensee avoid enforcement action for non-compliance, enhances the licensee's reputation and promotes the right environment for better financial performance; and
- (e) Ensure the compliance function's right to:
  - i. Have unrestricted access to any records or files necessary to carry out its responsibilities, and the corresponding duty of licensee staff to co-operate in supplying this information;
  - ii. Conduct investigations of possible breaches of the applicable laws, regulations and the compliance policy; and
  - iii. Appoint, subject to audit committee's approval, outside experts to perform a specific task, if appropriate.



MODULE	HC: High-Level Controls
CHAPTER	HC-7: Compliance

## HC-7.1 Compliance (continued)

**HC-7.1.4** Licensees must appoint a head of compliance with overall responsibility for the licensee's compliance function.

- HC-7.1.5 In groups (applicable to Category 1 investment firms):
- (a) The audit committee and senior management, with assistance of the group head of compliance, should ensure that adequate resources, commensurate with the scale and complexity of operations, are assigned for compliance activities at the head office, subsidiaries and overseas branches; and
  - (b) The group head of compliance should ensure that:
    - i. Adequate reports and information are received from subsidiaries and overseas branches on compliance related issues and must report the same to the audit committee; and
    - ii. It conducts annual compliance testing on subsidiaries and overseas branches whose total revenue represents 20% or more of the group's total revenue and every two years for other overseas operations.

HC-7.1.6 Subject to the CBB's approval, the role of head of compliance may be combined with the head of risk if the size and nature of the licensee justify the same.

- HC-7.1.7** The head of compliance must:
- (a) Report to the Audit Committee or the designated Board committee and administratively to the CEO. In the case of overseas investment firm licensees, the reporting must be to the Group or Regional Head of Compliance and administratively to the CEO/GM of the branch;
  - (b) Establish the operating compliance procedures and processes for identifying, assessing, monitoring, reporting and advising on compliance risk;
  - (c) Establish written guidance to the licensee's staff on the appropriate implementation of laws and regulations;
  - (d) Conduct, under the sponsorship of the CEO, awareness sessions for the licensee's staff on compliance policy requirements and issues; and
  - (e) Report to the Audit Committee or the designated Board Committee:
    - i. On a quarterly basis, the licensee's management of its compliance risk, in such a manner as to assist committee members to make an informed judgment on whether the licensee is managing its compliance risk effectively; and



MODULE	HC: High-Level Controls
CHAPTER	HC-7: Compliance

## HC-7.1 Compliance (continued)

- ii. Immediately any material compliance failures as they arise (e.g. failures that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss of reputation).

### HC-7.1.8

The compliance function must:

- (a) Have a formal status with sufficient authority within the licensee;
- (b) Carry out its responsibilities under a risk-based compliance programme that sets out its planned activities, such as the implementation and review of specific policies and procedures, compliance risk assessment and compliance testing;
- (c) Assess in cooperation with the relevant functions, in case of new regulations, the appropriateness of the licensee's relevant policies as well as the compliance policy and related procedures and processes. It must promptly follow up regarding any identified deficiencies, and, where necessary, formulate proposals for amendments in cooperation with the relevant functions;
- (d) On a proactive basis, identify, measure, document and assess the compliance risks associated with the licensee's business activities including the development of new products and business practices, proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships. If the licensee has a new products and services committee, the compliance function staff must be represented on the committee;
- (e) Monitor and test compliance by performing sufficient and representative compliance testing. The results of such testing must be reported to the Audit Committee ;
- (f) Advise the audit committee and senior management on all relevant laws, regulations and standards in all jurisdictions in which the licensee conducts its business and inform them on developments on the subject;



MODULE	HC: High-Level Controls
CHAPTER	HC-7: Compliance

## HC-7.1 Compliance (continued)

- (g) Must provide to the CBB a compliance assessment report on every application/request for approval to the CBB confirming that all related legal and regulatory requirements pertaining to the request have been thoroughly checked, including the impact of such request on the licensee's financial position and compliance status, and a reference must be made to any previously approved arrangements by the CBB. In cases where the requests have a potential financial impact on the licensee, a report from the financial control function in consultation with external auditors must also be submitted as part of the compliance assessment report, whereas in case of any legal implication of such a request a legal opinion on the matter must be submitted;
- (h) Act as a contact point within the licensee for compliance queries from staff members; and
- (i) Have sufficient and appropriate resources to carry out its functions effectively, commensurate with the size and complexity of the licensee.

### HC-7.1.9

The compliance function staff must:

- (a) Have the necessary qualifications, experience and professional and personal qualities to enable them to carry out their specific duties;
- (b) Have a sound understanding of applicable laws, regulations and standards and their practical impact on the licensee's business activities and operations; and
- (c) Be subject to regular and systematic training to remain up-to-date with developments in laws, regulations and standards.

HC-7.1.10 The CBB may at its own discretion communicate directly with the Head of Compliance to discuss issues of material concerns related to compliance risk.



MODULE	HC: High-Level Controls
CHAPTER	HC-8: Internal Audit

## HC-8.1 Internal Audit

**HC-8.1.1** Investment firm licensees must establish an effective and independent internal audit function (IAF).

**HC-8.1.2** The Audit Committee remains ultimately responsible for the IAF regardless of whether internal audit activities are outsourced.

**HC-8.1.3** The Board, Audit Committee and senior management must:

- (a) Promote a strong and robust internal control environment within the licensee;
- (b) Provide the IAF staff full and unconditional access to all files, records, data, documents, systems, properties, subsidiaries and overseas branches of the licensee;
- (c) Require that all internal audit findings and recommendations are resolved within a reasonable period of time to be set based on level and magnitude of risk;
- (d) Allocate sufficient annual budget to support the IAF's activities and plans; and
- (e) Inform the IAF of new developments, initiatives, projects, products and operational changes.

**HC-8.1.4** All Bahraini investment firm licensees must have an internal audit charter which must be drawn up and reviewed annually by the head of internal audit and approved by the Board or Audit Committee. It must be available to all internal stakeholders, and to external stakeholders in case of a listed investment firm.

**HC-8.1.5** The internal audit charter must establish, at a minimum:

- (a) The IAF's standing within the licensee, its authority, responsibilities and relations with other control functions in a manner that promotes the effectiveness of the function;
- (b) The purpose and scope of the IAF;
- (c) The obligation of the internal auditors to communicate the results of their engagements and a description of how and to whom this must be done (reporting line);
- (d) The criteria for when and how the IAF may outsource some of its engagements to external experts;
- (e) The terms and conditions according to which the IAF can be called upon to provide consulting or advisory services or to carry out other special tasks without creating a conflict with its core function;
- (f) The responsibility and accountability of the head of internal audit;





MODULE	HC: High-Level Controls
CHAPTER	HC-8: Internal Audit

## HC-8.1 Internal Audit (continued)

- (g) The requirement to comply with the international standard on internal audit issued by The Institute of Internal Auditor; and
- (h) Procedures for the coordination of the IAF with the external auditor.

### HC-8.1.6

The IAF must:

- (a) Be independent of all functions;
- (b) Have sufficient standing and authority within the licensee;
- (c) Have sufficient skilled resources to be able to judge outcomes and make an impact at the highest level of the organization;
- (d) Be able to perform its assignments on its own initiative in all areas and functions of the licensee based on the audit plan established by the head of the IAF and approved by the audit committee;
- (e) Be free to report its findings and assessments internally;
- (f) Independently review and evaluate the effectiveness and efficiency of all functions, internal controls, risk management, internal risk and finance models, governance framework, policies, procedures, systems and processes, including the licensee's outsourced activities and its subsidiaries (including SPVs) and local and overseas branches, and must ensure adequate coverage of matters of regulatory interest within the audit plan;
- (g) Develop an independent and informed view of the risks faced by the licensee based on its access to all licensee records and data, its enquiries and its professional competence;
- (h) Discuss its views, findings and conclusions directly with the audit committee and, if necessary, with the board of directors at their routine quarterly meetings; and
- (i) Not be involved in designing, selecting, implementing or operating specific internal control measures. However, the independence of the IAF must not prevent senior management from requesting input from the IAF on matters related to risk and internal controls. Nevertheless, the development and implementation of internal controls must remain the responsibility of management.





<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8: Internal Audit</b>

## HC-8.1 Internal Audit (continued)

### HC-8.1.7

Licensees must appoint a head of internal audit who shall:

- (a) Report directly to the Audit Committee and administratively to the CEO;
- (b) Demonstrate appropriate leadership and have the necessary personal characteristics and professional skills to fulfil his responsibility for maintaining the function's independence and objectivity;
- (c) Inform senior management of all significant findings so that timely corrective actions can be taken, and subsequently, he must follow up with senior management on the outcome of those corrective measures;
- (d) Report quarterly to the Audit Committee the status of pending findings;
- (e) Arrange appropriate ongoing training for the internal audit staff to meet the growing technical complexity of the licensee's activities and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes and other developments in the financial sector;
- (f) Establish an annual internal audit plan approved by the audit committee. The plan must be based on a robust risk assessment, including direct or indirect input from the board, audit committee and senior management;
- (g) Develop and maintain appropriate tools to assess the quality of the IAF; and
- (h) Define, in a group structure, the group's internal audit strategy, determine the organisation of the internal audit function both at the parent's and the subsidiary's level (in consultation with these entities' respective audit committees and in accordance with local laws) and formulate the internal audit principles, the audit methodology and quality assurance measures. He must also determine the audit scope for every internal audit exercise, by the parent's internal audit function, for every subsidiary on an annual basis in compliance with local regulations and incorporate local knowledge and experience.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8: Internal Audit</b>

## HC-8.1 Internal Audit (continued)

HC-8.1.8 The head of IAF should, whenever practicable and without jeopardising competence and expertise, periodically rotate internal audit staff within the internal audit function.

HC-8.1.9 The CBB may at its own discretion communicate directly with the head of the IAF to discuss issues of material concerns related to risks, compliance and internal controls.

HC-8.1.10 For purposes of Paragraph HC-8.1.7, licensees may outsource the IAF.

**HC-8.1.11** Internal audit reports must be provided to the audit committee without management filtering.

**HC-8.1.12** All internal audit staff must:

- (a) Apply the care and skills expected of a reasonably prudent and competent professional. Due professional care does not imply infallibility. Internal auditors having limited competence and experience in a particular area must be appropriately supervised by more experienced staff;
- (b) Avoid conflicts of interest. Internal auditors appointed from within the licensee must not engage in auditing activities for which they have had previous responsibility before a one year “cooling off” period has elapsed;
- (c) Act with integrity (being straightforward, honest and truthful);
- (d) Be diligent in the protection of information acquired in the course of their duties and must not use it for personal gain or malicious action;
- (e) Adhere to the code of ethics of the licensee, the institute of internal auditors and any other relevant professional or standard setting body;
- (f) Collectively be competent to examine all areas in which the licensee operates; and
- (g) Adhere to international professional standards established by the institute of internal auditors.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-9: Islamic Investment Firm Licensees</b>

## HC-9.1 Governance and Disclosure per Shari'a Principles

**HC-9.1.1** Companies which refer to themselves as “Islamic” must follow the principles of Islamic Shari'a.

**HC-9.1.2** Category 1 and Category 2 investment firm licensees, which are guided by the principles of Islamic Shari'a have additional responsibilities to their stakeholders. Investment firm licensees which refer to themselves as “Islamic” are subject to additional governance requirements and disclosures to provide assurance to stakeholders that they are following Shari'a Principles. In ensuring compliance with Shari'a principles, such licensees must establish a Shari'a Supervisory Board consisting of at least three Shari'a board members. Category 3 investment firm licensees, which are guided by the principles of Islamic Shari'a and refer to themselves as “Islamic” must appoint a minimum of one Shari'a advisor or scholar to verify that their operations are Shari'a compliant.

HC-9.1.3 In addition to its duties outlined in Section HC-3.4, the Audit Committee shall communicate and co-ordinate with the investment firm licensee's Corporate Governance Committee and the Shari'a Supervisory Board (“SSB”) (where applicable) to ensure that information on compliance with Islamic Shari'a rules and principles is reported in a timely manner.

HC-9.1.4 The Board shall set up a Corporate Governance Committee (see also Paragraph HC-3.7.2). In this case, the Committee shall comprise at least three members to co-ordinate and integrate the implementation of the governance policy framework.

HC-9.1.5 The Corporate Governance Committee established under Chapter HC-9 shall comprise at a minimum of:

- (a) An independent director to chair the Corporate Governance Committee. The Chairman of the Corporate Governance Committee should not only possess the relevant skills, such as the ability to read and understand financial statements, but should also be able to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the Audit Committee;
- (b) A Shari'a scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Shari'a-related governance issues (if any), and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB; and
- (c) An independent director who can offer different skills to the committee, such as legal expertise and business proficiency, which are considered particularly relevant by the Board of directors for cultivating a good corporate governance culture, and deemed “fit and proper” by the CBB.

HC-9.1.6 The Corporate Governance Committee shall be empowered to:

- (a) Oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; and
- (b) Provide the Board of directors with reports and recommendations based on its findings in the exercise of its functions.