



**MONEY CHANGERS  
HIGH-LEVEL CONTROLS  
MODULE**



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<b>CHAPTER</b>	<b>HC-A:</b>	<b>Introduction</b>

## HC-A.1 Purpose

### *Executive Summary*

- HC-A.1.1 This Module contains requirements that have to be met by licensees with respect to:
- The role and composition of their Boards and Board committees; and
  - Related high-level controls and policies.
- HC-A.1.2 These requirements specify minimum good practice standards, with regards to the function and responsibilities of Boards, their composition and size, and required standards of attendance and frequency of meetings. It also specifies basic requirements with respect to establishing policies and procedures that address the segregation of duties, internal audit and compliance arrangements, and the licensee's approach to remuneration and corporate ethics.
- HC-A.1.3 This Module supplements various provisions relating to corporate governance contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law ("Commercial Companies Law 2001"). In case of conflict, the Commercial Companies Law shall prevail. Compliance with this Module does not guarantee compliance with the Commercial Companies Law.

### *Legal Basis*

#### HC-A.1.4

This Module contains the Central Bank of Bahrain's ("CBB") Directive regarding High-level Control requirements applicable to licensees, 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"). Requirements regarding Money Changer licensees are also included in the Regulation Organising Money Changing Business, issued in 1994 and included in this Module.

- HC-A.1.5 For an explanation of the CBB's rule-making powers and different regulatory instruments, see section UG-1.1.

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## HC-A.2 Module History

### *Evolution of the Module*

HC-A.2.1 This Module was first issued in October 2010. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change 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 provided below:

Module Ref.	Change Date	Description of Changes

### *Superseded Requirements*

HC-A.2.3 This Module supersedes the following provisions contained in circulars or other regulatory requirements:

Document Ref.	Document Subject
BSD/D(111)3179	Regarding nomination of Senior Liaison Officer.
BC/11/98	Appointment of Approved Persons



MODULE	HC:	High-level Controls
CHAPTER	HC-B:	Scope of Application

## HC-B.1 Scope of Application

### HC-B.1.1

The content of this Module applies to all Money Changer licensees authorised in the Kingdom of Bahrain, thereafter referred to in this Module as licensees.



<b>MODULE</b>	<b>HC:</b>	<b>High-level Controls</b>
<b>CHAPTER</b>	<b>HC-1:</b>	<b>The Board</b>

## HC-1.1 Functions and Responsibilities

### *General Requirements*

**HC-1.1.1** Licensees must have a Board of Directors ('the Board'). The Board is ultimately accountable and responsible for the management and performance of the licensee.

HC-1.1.2 To discharge its responsibility effectively, a Board typically delegates various functions and tasks, for instance to Board sub-committees, management and other employees. When it delegates, the Board nonetheless retains ultimate responsibility for the performance of those functions and tasks.

### *Specific Requirements*

**HC-1.1.3** The Board must establish and maintain a statement of its responsibilities, defining its functions and tasks and those delegated to Board sub-committees and senior management. This statement must be clearly communicated to Board members and senior management.

HC-1.1.4 For the purposes of HC-1.1.3, the CBB expects licensees to maintain detailed mandates for Boards and sub-committees. These mandates should be reviewed periodically by the Board. Depending on the size and complexity of the licensee concerned, the CBB also expects the Board to operate appropriate sub-committees, such as an Audit Committee.

**HC-1.1.5** The Board must approve and review at least annually the licensee's:

- Strategic plans;
- Management structure and responsibilities; and
- Systems and controls framework (including its policies and procedures).

**HC-1.1.6** The Board must also regularly review:

- The licensee's implementation of its strategy and operational performance;
- The performance of its executive management; and
- The level of risk.

**HC-1.1.7** The Board must set out clearly and review on a regular basis who has authority to commit the licensee to contractual obligations. The Board must set a materiality threshold so that contractual obligations above this set threshold are regularly reported to the Board. In setting the materiality threshold, the Board must consider the financial impact the contractual obligations may have in relation to its capital.



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## HC-1.1 Functions and Responsibilities (continued)

**HC-1.1.8** The Board must have effective policies and processes in place to address its members' potential or actual conflicts of interest, including matters such as:

- (a) Related party transactions; and
- (b) The misuse of assets belonging to the licensee.

**HC-1.1.9** The Board and its members must act with honesty, integrity, due skill and care, and in the best interests of the licensee, its shareholders and customers.

HC-1.1.10 In assessing compliance with Paragraph HC-1.1.9, the CBB will take into account all actions of the Board and its members. The interest of the licensee includes the licensee's continued compliance with all relevant rules and regulations, and the interests of employees, customers and other stakeholders. The interest of shareholders includes the current and future value of the licensee, its status as a going concern, transparency and disclosure of information to the market.

**HC-1.1.11** The Board must oversee the process of disclosure to all stakeholders. The Board must ensure that the licensee's communications are fair, transparent, comprehensive and timely.



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<b>CHAPTER</b>	<b>HC-1: The Board</b>

## HC-1.1 Functions and Responsibilities (continued)

- HC-1.1.12 The CBB expects the Board to have effective policies and processes in place for:
- (a) Ensuring a formal and transparent Board nomination process;
  - (b) Appointing senior managers, and ensuring that they have the necessary integrity, technical and managerial competence, and experience;
  - (c) Overseeing succession planning, and minimizing undue reliance on key individuals;
  - (d) Reviewing key senior management and Board remuneration packages and ensuring such packages are consistent with the corporate values and strategy of the licensee and encourage prudent risk taking;
  - (e) Monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring appropriate resources are available; and
  - (f) Approving budgets and reviewing performance against those budgets.
- HC-1.1.13 In assessing the systems and controls framework (see Paragraph HC-1.1.5), the CBB would expect the Board to be able to demonstrate that the licensee's operations, individually and collectively:
- (a) Are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the licensee's activities. These should pro-actively identify as well as monitor risk. The systems should produce information on a timely basis, and in a form and quality appropriate to the needs of the different recipients;
  - (b) Are supported by an appropriate control environment. The risk management and financial reporting functions must be independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas; and
  - (c) Make effective use of the work of internal and external auditors. The internal audit function should be independent of the senior management, reporting either to the Board or its Audit committee (where applicable). The Board or Audit Committee should ensure that the external audit firm and its partners are truly independent of the licensee and have no financial or other relationship with the licensee. Audit findings should be used as an independent check on the information received from management about the licensee's operations and performance and the effectiveness of internal controls.



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CHAPTER	HC-1:	The Board

## HC-1.2 Composition

**HC-1.2.1** The Memorandum and Articles of Association of licensees must adequately set out procedures for the appointment, removal and retirement of Directors.

HC-1.2.2 These should, amongst other things, include procedures for removing Directors in case of non-attendance or other failure to discharge properly their responsibilities as company Directors.

**HC-1.2.3** To fulfil its responsibilities outlined in Section HC-1.1, the Board of licensees must periodically assess its composition and size and, where appropriate, reconstitute itself and its committees by selecting new Directors to replace long-standing members or those members whose contributions to the licensee or its committees is not adequate.

**HC-1.2.4** The Board must ensure that collectively it has sufficient expertise to understand the important issues relating to the operation and control of its company.

HC-1.2.5 It is not expected that every Board member is proficient in all areas, but collectively the Board is expected to have the required expertise. There should also be agreed upon procedures by the Board for Directors to take independent advice if necessary at the licensee's expense. CBB also expects Board members to undertake relevant training on a regular basis to help them fulfill their responsibilities as Directors.

HC-1.2.6 The appointment of Board members is conditional on the approval of the CBB. (See Section AU-1.2).

**HC-1.2.7** A Board member may have a maximum of two Directorships of financial institutions inside Bahrain. However, two Directorships of licensees within the same type of licensees would not be permitted. Licensees may approach the CBB for exemption from this limit where the Directorships concern financial institutions within the same group.



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### HC-1.3 Meetings and Attendance

**HC-1.3.1** The Board must meet sufficiently often to enable it to discharge its responsibilities effectively, taking into account the licensee's scale and complexity.

HC-1.3.2 The CBB expects that the scale and complexity of most licensees will require meetings to be held at least quarterly. For the larger, most complex licensees, more frequent Board meetings may be more appropriate.

**HC-1.3.3** Board rules must require members to step down if they are not actively participating in Board meetings.

HC-1.3.4 The CBB expects Board members who fail to attend at least three-quarters of all Board meetings in any twelve-month period to step down, unless the Board is able to satisfy the CBB that there are valid reasons for the Director concerned to remain a Board member.

**HC-1.3.5** At least half the Board meetings of licensees in any twelve-month period must be held in the Kingdom of Bahrain.

**HC-1.3.6** The Board must be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The Board must also maintain adequate records of its meetings, such that key decisions and how they are arrived at can be traced.



MODULE	HC:	High-level Controls
CHAPTER	HC-2:	Other High-level Controls

## HC-2.1 Chief Executive/General Manager

**HC-2.1.1** Licensees must appoint a person to undertake the function of Chief Executive or General Manager.

HC-2.1.2 The Chief Executive or General Manager (as appropriate), is responsible for the executive management and performance of the licensee, within the framework of delegated authorities set by the Board. The function of Chief Executive or General Manager is a controlled function, and the person nominated to that post therefore requires prior CBB approval (see Module AU (Authorisation)).

**HC-2.1.3** Residency requirements apply to Chief Executives and General Managers (see Section AU-2.2.)



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## HC-2.2 Segregation of Duties

**HC-2.2.1** Licensees must maintain clearly documented and communicated staff responsibilities and reporting lines.

HC-2.2.2 For the purposes of Rule HC-2.2.1, licensees should maintain and document their delegated authority structure as well as written terms of reference for staff positions.

**HC-2.2.3** Licensees must maintain an organisational structure that minimises the risk of conflicts of interest arising.



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## HC-2.3 Internal Audit

**HC-2.3.1** Unless otherwise agreed with the CBB, licensees must establish an internal audit function to monitor the adequacy of their systems and controls.

HC-2.3.2 The CBB would normally expect larger licensees to maintain the internal audit function within the organisation. The CBB will however consider allowing small licensees to outsource part or all of their internal audit function to third party providers.

**HC-2.3.3** Licensees may outsource part or all of their internal audit function, after obtaining the prior approval of the CBB. The outsourcing arrangements must provide for an adequate level of scrutiny of the licensee, and must comply with the requirements contained in Section RM-2.4. A licensee cannot outsource its internal audit function to its external auditor.

HC-2.3.4 Prior approval from the CBB is required for significant outsourcing arrangements, including all outsourcing of internal audit. Note that in all such cases, the licensee retains ultimate responsibility for the adequacy of its outsourcing function, and is required to identify the person within the licensee responsible for internal audit: this person should be an approved person (see Section AU-1.2 and Chapter RM-2).

**HC-2.3.5** Internal audit functions must have terms of reference that clearly indicate:  
(a) The scope and frequency of audits;  
(b) Reporting lines; and  
(c) The review and approval process applied to audits.

HC-2.3.6 Paragraph HC-2.3.5 applies irrespective of whether the internal audit function is outsourced. Where it is outsourced, the CBB would expect to see these matters addressed in the contract with the outsourcing provider.

**HC-2.3.7** Internal audit functions must report directly to the Audit Committee or, where none exists, to the Board. They must have unrestricted access to all the appropriate records of the licensee. They must have open and regular access to the Audit Committee, the Board, the Chief Executive, and the licensee's external auditor.



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## HC-2.3 Internal Audit (continued)

### HC-2.3.8

Internal audit functions must have adequate staff levels with appropriate skills and knowledge, such that they can act as an effective challenge to the business. Where the function is not outsourced, the head of the function should be a senior and experienced employee. Internal audit functions must not perform other activities that compromise their independence.

#### HC-2.3.9

The CBB would expect to see in place a formal audit plan that:

- (a) Is reviewed and approved at least annually by the Audit Committee or, where none exists, the Board;
- (b) Is risk-based, with an appropriate scoring system; and
- (c) Covers all material areas of a licensee's operations over a reasonable timescale.

#### HC-2.3.10

Internal Audit reports should also be:

- (a) Clear and prioritised, with action points directed towards identified individuals;
- (b) Timely; and
- (c) Distributed to the Audit Committee or Board and appropriate senior management.

#### HC-2.3.11

Licensees should also have processes in place to deal with recommendations raised by internal audit to ensure that they are:

- (a) Dealt with in a timely fashion;
- (b) Monitored until they are settled; and
- (c) Raised with senior management if they have not been adequately dealt with.



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## HC-2.4 Compliance

**HC-2.4.1** Licensees must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements in the Kingdom's legislation and those set by the CBB, and those established under any other statute or regulator to which they are subject.

HC-2.4.2 Depending on the nature, scale and complexity of its business, a licensee should consider having a separate compliance function. A compliance function should:

- Document its organisation and responsibilities;
- Be appropriately staffed with competent individuals;
- Have unrestricted access to the licensee's relevant records; and
- Have ultimate recourse to the Board.

**HC-2.4.3** Licensees must designate an employee, of appropriate standing and resident in Bahrain, as Compliance Officer. The duties of the Compliance Officer include:

- Having responsibility for oversight of the licensee's compliance with the requirements of the CBB; and
- Reporting to the licensee's Board in respect of that responsibility.

HC-2.4.4 The Compliance Officer is a controlled function and the requirements relating to approved persons must be met (see Chapter AU-1.2). If the scale and nature of the licensee's operations are limited, then the individual who performs the function of Compliance Officer may also take on other responsibilities, providing this does not create a potential conflict of interest. The compliance function may not be combined with the internal audit function or any operational function as they are incompatible and may create a conflict of interest.



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<b>CHAPTER</b>	<b>HC-2:</b>	<b>Other High-level Controls</b>

## HC-2.5 Remuneration Policies

### HC-2.5.1

The review of Directors' remuneration must be a standing item on the licensee's Annual General Meeting agenda, and must be considered by shareholders at every Annual General Meeting. Directors' remuneration (including pension and severance arrangements) and bonuses must be clearly disclosed in the annual financial statements.

### HC-2.5.2

Directors' remuneration should also comply with all applicable laws, such as Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law.



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## HC-2.6 Corporate Ethics

**HC-2.6.1** A licensee's Board must establish and disseminate to all employees of the licensee a corporate code of conduct.

**HC-2.6.2** The code of conduct must establish standards by giving examples or expectations as regards:

- (a) Honesty;
- (b) Integrity;
- (c) The avoidance or disclosure of conflicts of interest;
- (d) Maintaining confidentiality;
- (e) Professionalism;
- (f) Commitment to the law and best practises; and
- (g) Reliability.

**HC-2.6.3** The Board must ensure that policies and procedures are in place to ensure that necessary customer confidentiality is maintained.