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# Compliance & Enforcement Annual Report 2020

For the period ended December, 2020

Capital Markets Supervision Directorate  
Central Bank of Bahrain



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## 1. Introduction



The Capital Markets Supervision Directorate's (the "CMSD") regulatory mandate is to set and enforce high quality capital market industry standards, protect investors and strengthen market integrity while supporting a stimulating capital markets' ecosystem. The Investigation and Enforcement ("IE") team within the CMSD assumes responsibility to ensure effective enforcement of the Central Bank of Bahrain's (the "CBB") regulatory requirements, in order to achieve fairness, transparency, investor protection and safeguard public interests in the Kingdom of Bahrain.

In pursuing these mandates, IE aims to institute a fully-fledged proactive enforcement regimen that ensures the fulfilment of CMSD's requirements by listed companies, self-regulatory organizations ("SROs") and the related licensees. Accordingly, given each department's invaluable role, the CMSD as a whole, strives to continue to instil and integrate the compliance and enforcement

function, directorate-wide. The CMSD believes that this inclusive view of enforcement strengthens and enhances the efforts expended to protect the integrity of the capital markets.

This annual report provides a comparative overview of CMSD's efforts in 2019-2020 to identify and address non-compliances, negligence or misconduct, by accounting for all market participants in order to enact the word of the law, safeguard the interests of all stakeholders and ensure a stimulating environment within which the needs of members, investors and the regulator are met.

This is particularly important due to the exceptional nature of the year 2020 with the implications of the Coronavirus ("COVID-19") pandemic being felt both locally and globally, giving rise to unprecedented challenges and risks, testing the financial system's operational resilience, business continuity planning and cyber-security, among other things.

## 2. Compliance Status 2020

With reference to MIE-3.1.8 of the Market Surveillance, Investigation and Enforcement (“MIE”) Module of Volume 6 of the CBB Rulebook, in deciding on any given regulatory and enforcement response, the CBB is dependent on examining the circumstance of each individual contravention against Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law (“CBB Law”) and the MIE Module. The CBB’s approach is three-way, in that the gravity of each respective contravention is assessed, the concerned person’s/entity’s compliance track record is examined and finally remedial measures to prevent future contraventions are evaluated and consequently instituted. Accordingly, this section will examine the most recent cases of contraventions of the CBB Law, the CBB rulebook requirements or any other regulations and resolutions issued in connection with implementing thereof.

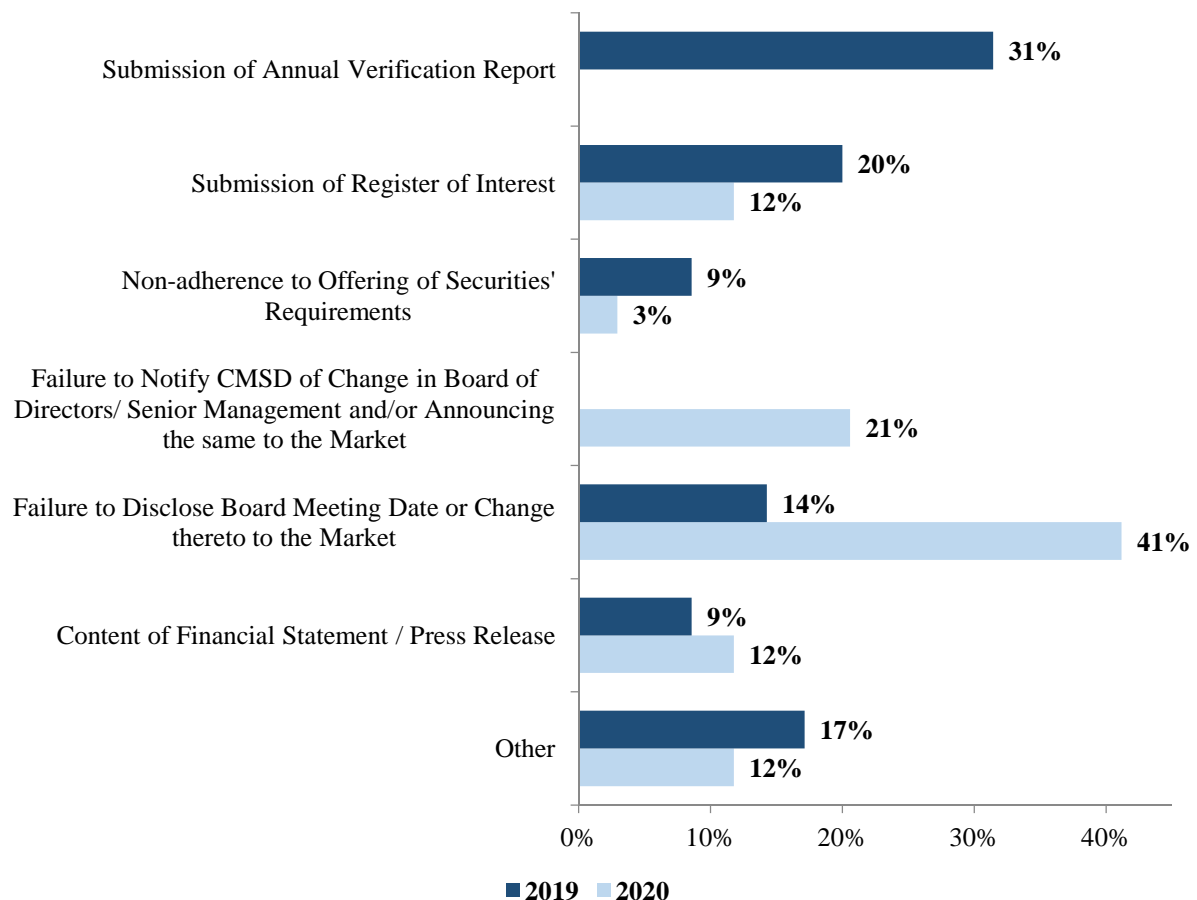
### 2.1. Listed Companies

#### ➤ Most Recurring Contraventions by Type

Figure 1 below illustrates the overall trend of CMSD-addressed contraventions (including those to which it issued Non-Compliance Letters (“NCLs”), Notices, Formal Warnings among other things) in the years 2019-2020 across listed companies:

**Figure 1**

#### Listed Company Contraventions by Type (2019-2020)



As illustrated above, more than half of contraventions across listed companies for 2019 related to periodic returns, namely the Submission of Annual Verification Report along with the Submission of Register of Interest, these are followed by an additional date-sensitive contravention, Failure to Disclose the Date or Change thereto of the Meeting of Board of Directors.

In 2020 however, the most common non-compliances were concentrated on the Failure to Disclose the Date or Change thereto of the Meeting of Board of Directors, making up close to half of all 2020 contraventions and almost tripling in number from 2019. This is followed by Failure to Notify the CMSD of a Change in Board of Directors / Senior Management and/or Announcing the same to the Market, making up almost a quarter of all 2020 contraventions.

Table 1 below outlines the abovementioned cases further:

**Table 1**

<b>Listed Company Contraventions by Type (2019-2020)</b>		
<b>Contraventions by Type</b>	<b>2020</b>	<b>2019</b>
<b>Content of Financial Statement / Press Release</b>	<b>4</b>	<b>3</b>
<b>Failure to Disclose Board Meeting Date or Change thereto to the Market</b>	<b>14</b>	<b>5</b>
<b>Failure to Notify CMSD of Change in Board of Directors/ Senior Management and/or Announcing the same to the Market</b>	<b>7</b>	
<b>Non-adherence to Offering of Securities' Requirements</b>	<b>1</b>	<b>3</b>
<b>Submission of Register of Interest</b>	<b>4</b>	<b>7</b>
<b>Submission of Annual Verification Report</b>		<b>11</b>
<b>Other</b>	<b>4</b>	<b>6</b>
Declaration of Annual Dividend	2	1
Non-adherence to Insider Policy Trading Requirements & Takeovers, Mergers & Acquisitions' Requirements	1	
Non-adherence to Market Making Requirements		1
Non-adherence to Treasury Share Transactions' Requirements		2
Publication of Financial Statement	1	1
Unacceptable Conduct when Dealing with the CBB		1
<b>Grand Total</b>	<b>34</b>	<b>35</b>

As outlined in the above table, total non-compliances by listed companies in 2020 (34 contraventions) has decreased from 2019 (35 contraventions) by 1 case only.

➤ **Temporary Suspension of Trading**

The CBB may decide to suspend securities' trading in the interest of the public and for the protection of investors. Table 2 below denotes the notable suspension cases of 2019-2020:

Table 2

Suspension Cases (2019-2020)			
Nature of Suspension	Listed Company	2020	2019
Publication of Financial Results	ITHMR	1	
	GFH	1	
Publication of Highlights on Financials Prior to Publishing Financial Statements	APMTB	1	
Pending Announcement on Recommendation of Declaration of Dividends	ESTERAD	1	
Disclosure of Material Corporate Information	ARIG		2
	ITHMR		1
	SALAM		1
	BISB		1
<b>Grand Total</b>		<b>4</b>	<b>5</b>

### 3. Key Case Handling & Escalation

The table below details key cases handled by CMSD-wide departments as well as those referred for escalation during the years 2019-2020:

Table 3

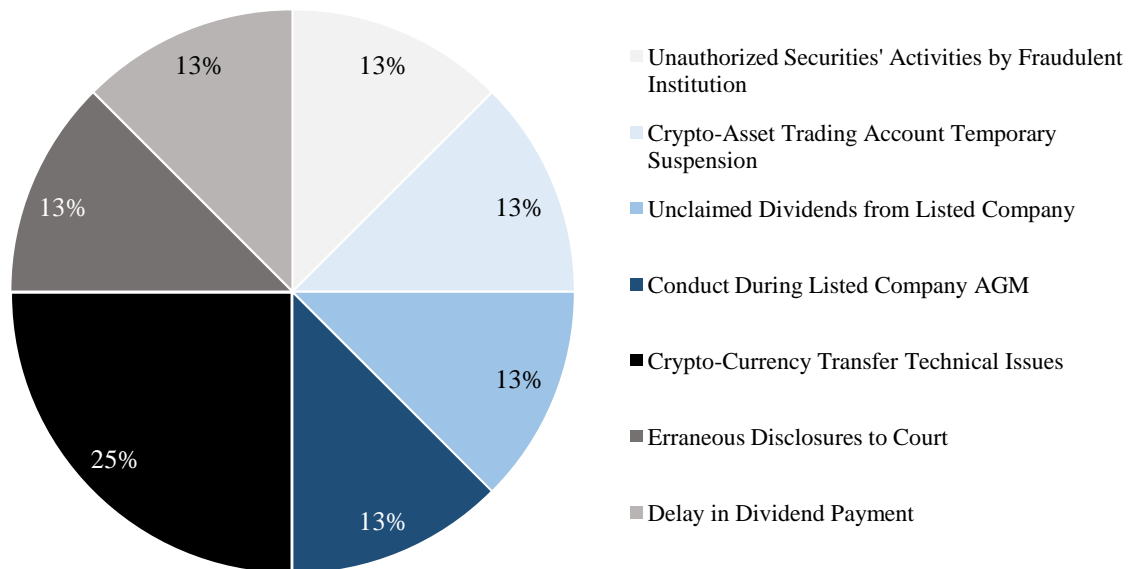
Key Cases (2019-2020)			
Year	Violator	Subject	Enforcement Outcome
2019	SRO	Late Submission of Financial Statements	Formal Warning
		Late Submission of Financial Statements	Formal Warning
		Non-Compliance with CMSD's Instructions	Formal Warning
	Listed Company	Non-adherence to Offering of Securities Requirements	Financial Penalty
	Licensed Broker	Unacceptable Conduct when Dealing with the CBB	Formal Warning
2020	Listed Company & Licensed Broker	Non-compliance with CBB's Rules and Guidelines	Formal Warning
	Listed Company	Non-adherence to the requirement that Key Persons trade through in-house brokerage only	Formal Warning
	Listed Company	Non-disclosure of the Board of Directors' meeting date for the first quarter of the year 2020-2021	Non-Compliance Letter
	Licensed Broker	Breach of Pre-arranged Trading Prohibitions	Formal Warning
	Licensed Crypto-Asset Service Provider	Appointment of External Auditor Prior to Obtaining CBB's Approval	Non-Compliance Letter
Licensed Crypto-Asset Service Provider	Late Filing of Annual Audited Financial Statements, Non-Adherence to Notification Requirements for Anticipated Delays in Submitting Date-Sensitive Requirements and Non-Compliance with Enhanced Due Diligence Requirements	Non-Compliance Letter, Formal Warning & Per Diem Financial Penalty	

#### 4. Complaint Handling & Public Awareness Initiatives

The CMSD places great importance on complaints which relate to potential cases of contravention of the CBB Law, rules and regulations or SRO's business rules. The below figure outlines a breakdown of the complaints handled by the CMSD in 2020:

**Figure 2**

#### Capital Markets' Related Complaints Handled, 2020



While carrying out its examination of complaints received, the CMSD endeavours, where applicable, to issue press releases, as an effective way of raising public awareness, reinforcing confidence in the financial system and reducing risks and financial crime. Accordingly, in 2020, the CBB issued one press release relating to an examined complaint:



Through such press release CBB warned consumers against dealing with unlicensed financial institutions that claim to offer investment in securities, particularly as they were also flagged by other overseas authorities for engaging in unlicensed capital market activity. The press release further stressed the need for consumers to ensure the utmost care and caution, and take into consideration the risks, when investing, dealing or trading any amounts in securities or foreign exchange with any person, persons, institutions, companies or websites, including social media, and ensuring that they hold the necessary licenses from the Central Bank of Bahrain to engage in such activities. Ultimately, consumers were encouraged to visit the register of licensed financial institutions on CBB's website ([www.cbb.gov.bh](http://www.cbb.gov.bh)) in order to ensure the above.



## 5. CBB's Regulatory Response to COVID-19

The recent outbreak of the COVID-19 pandemic has proven to be a profound health and humanitarian crisis that is also fundamentally challenging the financial and operational agility of the global capital markets industry. In the face of such disruption to the capital markets resulting from the macroeconomic impact of COVID-19 on the global economy and pursuant to the preventive measures implemented by the government of the Kingdom of Bahrain to combat the outbreak, the Central Bank of Bahrain (including its Capital Market Supervision Directorate) issued a number of circulars tackling various areas of focus, from safety guidelines, to emphasis on licensees'/listed companies' responsibility to implement precautionary measures to safeguard the market functionality, to the implementation of various relief measures (including the exemption from preparation and publication of the first quarter's financial results) as a form of regulatory flexibility to help market participants address the challenges posed by COVID-19 while ensuring that market integrity and investor protection principles are maintained.

These regulatory responses reflect the CBB's commitment to ensuring that the capital markets, among other financial ecosystems within the Kingdom, continue to function throughout this difficult period in an open and orderly manner. In summary, the below provides an outline of the CBB's main regulatory responses to COVID-19, in the form of issued circulars:

**Table 4**

Regulatory Response Measures to COVID-19			
Date of Issuance	Circular	Recipient	Summary
29 <sup>th</sup> September 2020	<b>Proof of Residency Permit (OG/328/2020)</b>	All Licensees	Given the current COVID-19 pandemic, the Nationality, Passports and Residence Affairs Directorate at the Ministry of Interior will not be issuing the residency permit sticker for expatriates anymore. However, a proof of residency permit issued by the Labour Market Regulatory Authority (LMRA) will substitute the residency permit sticker during the current situation. <b>Therefore, the permit issued by the LMRA should be considered sufficient for KYC purposes.</b>
14 <sup>th</sup> July 2020	<b>Reporting of Financial Impact of COVID-19 (Ref. OG/259/2020)</b>	-All Listed Companies -All Licensees	As part of the CBB's objective to maintain transparency amidst current implications of COVID-19 and given that businesses have increasingly become vulnerable to financial losses, in this circular, <b>the CBB required listed companies and licensees to disclose the financial impact of COVID-19 in their interim and annual financial statements starting for statements ending 30<sup>th</sup> June 2020.</b> For those companies which are not required to produce interim financial statements, such disclosure will only be in their 2020 annual financial statements. For listed companies, such disclosures must be made through a supplementary public disclosure that must be published on the Bahrain Bourse



Regulatory Response Measures to COVID-19			
Date of Issuance	Circular	Recipient	Summary
			<p>website in addition to the inclusion of such disclosure in the financial statements.</p> <p>To assist companies in determining the financial impact, the financial value should be derived based on any reduction in values of any specific asset(s), sales and revenues, liquidity, etc. or increase in expenses, commitments, etc. as a direct impact from COVID-19 and bearing in mind any financial benefits derived from government support schemes. Such exercise must be made in cooperation with their external auditors.</p>
27 <sup>th</sup> May 2020	Money Laundering & Terrorist Financing Risks & Practices during COVID-19 (Ref. EDFIS/C/052/2020)	All Licensees	<p>The CBB issued the attached guidance paper based on the “COVID-19 related Money Laundering and Terrorist Financing Risks and Policy Responses”, a paper published by the Financial Action Task Force (FATF).</p> <p><b>All licensees were urged to read the FATF guidance paper in this regard and establish additional measures based on a review of the internal processes and systems as appropriate.</b></p>
8 <sup>th</sup> April 2020	Additional COVID-19 Precautionary Measures (Ref. OG/148/2020)	All Licensees	<p>CBB required all licensees to adopt the following guidelines:</p> <ul style="list-style-type: none"> <li>▪ <b>Working from home approach must be implemented</b>, as extensively as possible;</li> <li>▪ <b>The number of employees working at various offices/branches must be reduced</b> as much as possible, and the employees working from offices must ensure adherence to health and safety guidelines issued recently by the CBB as well as social distancing measures; and,</li> <li>▪ <b>The number of employees using corporate means of transportation, such as company buses, must be reduced.</b></li> </ul>
1 <sup>st</sup> April 2020	Market Fairness and Integrity Amid COVID-19 Developments (Ref. CMS/C/011/2020)	All Listed Companies	<p>The CBB emphasized the importance of listed companies’ compliance with the requirements of Corporate Governance and Controls, Disclosure Standards and the Prohibition of Market Abuse and Manipulation Modules of the CBB Rulebook. As such, the CBB reiterated the following responsibilities:</p> <ul style="list-style-type: none"> <li>▪ As the capital market participants have put in place remote access mechanism in order to ensure continuity of business, <b>listed companies are to be vigilant that all material non-public information is retained confidentially</b> and safeguarded against illegal acts, particularly in relation to insider trading.</li> </ul>

Regulatory Response Measures to COVID-19			
Date of Issuance	Circular	Recipient	Summary
			<ul style="list-style-type: none"> <li><b>Listed companies are to be mindful of their obligations in relation to immediate disclosure of material information</b> in order to protect investors and avoid withholding material information that would attribute to a misinformed market.</li> </ul> <p>The CBB further reaffirmed its support to all listed companies with relief measures as necessary to aid them in facing these unprecedented circumstances, however <b>such measures do not exempt listed companies from their ethical responsibility and obligation of compliance with the CBB rules and regulations.</b></p>
30 <sup>th</sup> March 2020	<b>Market Intermediaries Responsibility Amid COVID-19 (Ref. CMS/C/010/20)</b>	SRO Members	<p>The CBB emphasized the significance of market intermediaries' implementation of precautionary measures and safeguarding the market functionality as a fair and transparent market and advised them to be mindful of the following responsibilities towards the market amid COVID-19:</p> <ul style="list-style-type: none"> <li><b>Disclaiming Current Market Risks:</b> Market intermediaries are instructed to communicate disclaimers to investors through their electronic or traditional channels with the aim of educating and informing investors on the current risks in the markets and the rapid developments leading to higher volatility.</li> <li><b>Monitor and Report Fraudulent and Suspicious Activity:</b> Market intermediaries are responsible for monitoring and reporting attempts of fraudulent acts, investment scam attempts, market abuse and manipulation attempts and other suspicious activity to the SRO and/or the CBB, as governed by the related regulations and requirements.</li> <li><b>Strengthen Communication Lines:</b> All market intermediaries are advised to ensure that communication lines with the SRO, market participants and the CBB are strengthened. This is crucial to allow market intermediaries to communicate with the SRO and the CBB any updates in relation to material market developments, disruptions and urgencies and follow-up recommendations to ensure market functionality.</li> </ul>
30 <sup>th</sup> March 2020	<b>Exemption for First Quarter Financial Results Preparation and Publication</b>	-All Listed Companies -All Locally Incorporated	<b>The CBB exempted all listed companies and locally incorporated banks from the preparation and publication of their quarterly reviewed financial results for the first quarter</b>

Regulatory Response Measures to COVID-19			
Date of Issuance	Circular	Recipient	Summary
	(Ref. OG/124/2020)	Banks	of 2020. Accordingly, the first reviewed financial statements that must be prepared and published in 2020 would be the June 2020 six months period statements.
26 <sup>th</sup> March 2020	Services Continuity Measures (Ref. EDFIS/C/032/2020)	-SROs -SRO Members -Crypto-Asset Licensees	<p>Due to the current circumstances, and that all licensees shall continue to function, therefore <b>all licensees were required to ensure and confirm to the CBB the readiness and reliability of their Business Continuity and Disaster Recovery Plans</b>. The CBB requested that <b>all licensees provide a briefing regarding their current plan</b> in respect of the measures taken so far to assure un-disrupted operations during these times including but not limited to the following:</p> <ul style="list-style-type: none"> <li>▪ Remote access;</li> <li>▪ Readiness to service clients remotely and through other means; and,</li> <li>▪ Reliability of systems, controls and technology in place.</li> </ul> <p>Licensees were expected to report back to the CBB with the above requirements no later than 2<sup>nd</sup> April 2020.</p>
19 <sup>th</sup> March 2020	Upcoming General Meetings (Ref. OG/108/2020)	-All CBB Licensees -All Listed Companies	<p>The CBB issued the following safety guidelines regarding the upcoming general meetings to discuss the financial results for the year ended 31<sup>st</sup> December 2019:</p> <ul style="list-style-type: none"> <li>▪ All CBB licensees and companies whose shares are listed on the Bahrain Bourse shall comply with the decisions of the government specifically in relation to <b>limiting all public gatherings to 20 people or fewer</b>.</li> <li>▪ The CBB instructed <b>all licensees and listed companies, whose general meetings will be unfeasible to comply with the above instruction, to convene the general meeting via electronic or teleconferencing means</b>. Companies shall exhaust all avenues to have the electronic/teleconferencing procedures in place for the meeting to assemble on the scheduled date and time. Alternatively, the general meeting may be rescheduled, however, no later than 30<sup>th</sup> April 2020.</li> <li>▪ <b>Listed companies may liaise with Bahrain Clear B.S.C. (“Bahrain Clear” or “BHC”) to facilitate their general meetings</b>, as Bahrain Clear has developed and set up appropriate teleconferencing measures.</li> <li>▪ Licensees and listed companies that intend to hold board elections in their upcoming general meetings <b>shall postpone the election until a subsequent general meeting is</b></li> </ul>

Regulatory Response Measures to COVID-19			
Date of Issuance	Circular	Recipient	Summary
			<p>convened. The board of the concerned licensee/listed company shall request an extension of their appointment for a period of no longer than 6 months from the CBB or Ministry of Industry, Commerce and Tourism, as the case may be.</p> <ul style="list-style-type: none"> <li>The representatives of the CBB shall attend the general meetings via the arranged teleconferencing means and as such, <b>licensees and listed companies are required to facilitate the necessary arrangements to effect the same.</b></li> </ul>
11 <sup>th</sup> March 2020	<b>Disinfection Instructions (Ref. EDFIS/C/024/2020)</b>	-SROs -SRO Members -Crypto-asset Licensees -All Listed Companies	The CBB requested that <b>all licensees follow and implement the disinfection instructions issued by the Ministry of Health</b> as part of the public awareness campaign to combat COVID-19. Licensees must report back to the CBB on such implementation no later than 15 <sup>th</sup> March 2020. Licensees were also encouraged to engage with the public on measures taken to ensure the safety of their staff and customers.

## 6. Conclusion

The year 2020 has been an exceptional one, with the implications of the pandemic faced both locally and globally, fundamentally challenging the financial and operational agility of the global capital markets industry. In the face of such disruption and in an effort to exercise much-needed regulatory flexibility, the Central Bank of Bahrain as a whole and its Capital Market Supervision Directorate in particular, sought to institute measures and give special consideration to ensure orderly market functionality and assist market participants in tackling the ever-growing challenges posed by COVID-19, all the while safeguarding market integrity, transparency and investor protection.

In light of this, the CMSD continues to be committed to more carefully consider the appropriate regulatory response to potential breaches of rules or market misconduct. Seeing as each non-compliance or suspected case is unique and involves a variety of different circumstantial elements, the CMSD strives to be as consistent and transparent as possible in the related decision-making. The CMSD's most prevalent role revolves around ensuring effective implementation and enforcement of CBB's regulatory requirements for the capital markets, as such, it continuously seeks to develop and improve its regulatory framework in line with regional and international counterparts. Ultimately, and in line with findings of this annual report, the CMSD, alongside key stakeholders, will work to further improve standards of compliance in the market, reduce recurrences and overall boost market awareness of its regulatory framework – with the core objective of solidifying the efficiency of one of Bahrain's aspired key financial drivers, the capital markets.