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**FOR  
AGENDA**

SM/00/126  
Correction 1

June 20, 2000

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Bahrain—Banking Supervision—Report on Observance of  
Basel Core Principles**

The attached pages 7 and 8 of SM/00/126 (6/20/00) were inadvertently omitted.

Att: (2)

Other Distribution:  
Department Heads



Table 1. Summary of Assessment Findings

| Subject   | Summary of Assessment Findings   |
|---|--|
| Preconditions for effective banking supervision, CP 1 | The potential for the direct involvement of the MOFNE in the BMA's decisions on licensing, closure, and certain administrative enforcement matters, as well as its presence on the BMA's Board of Directors, could compromise the independence of the BMA in implementing its supervisory functions.   |
| Licensing and structure, CPs 2-5                      | The BMA Law does not define either permissible activities for banks or the term "bank" itself. BMA cannot control all bank ownership changes. The BMA does not use specific standards and criteria against which proposed acquisitions/investments can be assessed.  |
| Prudential regulations and requirements, CPs 6-15     | The BMA does not require that transactions with connected parties exceeding specified amounts or otherwise posing special risks be subject to approval by a bank's board, nor does it require that procedures be in place to prevent persons benefiting from a loan participating in the preparation of the loan assessment or of the decision itself. |
| Methods of ongoing supervision, CPs 16-20             | The BMA's human resources that are allocated to supervision are inadequate to continue to undertake timely, comprehensive supervision of a growing, diverse group of financial institutions.   |
| Information requirements, CP 21                       | Full compliance, reports are prepared in accordance with appropriate international accounting standards.   |
| Remedial measures and exit, CP 22                     | Full compliance, graduated remedial measures are applied to achieve prudential compliance.   |
| Cross-border banking, CPs 23-25                       | Full compliance, international standards applied and information appropriately exchanged.  |

#### D. Authorities' Response and Recommended Next Steps

16. At the conclusion of the on-site assessment process, the BMA was provided the opportunity to review and comment on the assessment of its compliance with each of the Basel Core Principles. In general, the authorities agreed with the initial assessment. The BMA clarified its position on principles related to supervisory authority independence, legal protection of supervisors, information sharing among supervisors, permissible activities of banks, bank ownership changes, and connected lending. The BMA's clarifications and comments have been incorporated in the final assessment.

17. Drawing on the CPs assessment it is recommended that the identified deficiencies are addressed, either through the BMA's ongoing project to revise and update the BMA Law or, where possible, through the issuance of regulatory circulars. Specific legislative actions were discussed and the authorities agreed with the team on an early timetable for implementing proposed measures.