

**Consultation - Violations  
Market Participants Comments and Feedback  
2019**

**Feedback Statement**

**NC=No Change**

**LR= BHB Listing Rules**

|   | Reference                     | Industry Comments   | BHB's Response   |
|---|-------------------------------|---|--|
| 1 | 2.2 of BHB Issuers Violations | We believe that the annual fine amount is excessive and puts a burden on all cross listed companies, where we will be paying an annual fine of BD 200,000 and if we become listed on Tadawul the annual fine amount will increase to BD 300,000. As you were aware, cross listed companies have no control on the preferences of their shareholders and they may, at their own discretion, decide the market they want to maintain their shares in.   | Noted, the fine will be fixed at BHD 100,000 on an annual basis irrespective of the number of secondary listings.  |
| 2 | V15<br>LR 3.35                | The cross-reference should be LR-3.37   | V15 refers to LR-3.35 which pertains to the issuer's obligation to ensure that the percentage of shares to be listed as a secondary listing shall not exceed 30% of its share capital. |
| 3 | LR 3.35                       | With reference to Consultation Paper of Bahrain Bourse's Issuers Violations, we would like to address our concern about the proposed fines as stipulated in the of Bahrain Bourse ("BHB") Listing Rules. We totally understand the objective behind such rule, but we believe that applying such fines on the existing listed companies that are not in line with this rule will not be fair as the existing listed companies do not have any control over the shareholders and do not have the power to enforce its shareholders in other stock markets to transfer their shares to BHB. | Noted.   |

|   | Reference       | Industry Comments   | BHB's Response  |
|---|-----------------|---|---|
| 4 | V14<br>LR -3.37 | The cross-reference should be LR-3.39- 3.40   | V14 refers to: <ul style="list-style-type: none"> <li>LR-3.37 which pertains to the issuer's obligation to refrain from disclosing any information to other markets before disclosing such information to the main market, or to disclose such information concurrently therewith.</li> </ul>   |
| 5 | V14             | We believe first violation disciplinary action shall not include a fine.  | This violation entails undermining the BHB as the home market and such inequivalent information disclosures between home and host markets can disadvantage investors. Such violation has been witnessed more in recent years and as such a fine here, even from the first occurrence, will encourage a high standard of conduct and compliance, thereby reducing risk to investors and the rest of the financial sector.  |
| 6 | V16<br>LR-4.4   | What methodology the Bourse will follow to determine the free float percentage of companies' issued and paid up capital.  | The methodology is already available under Section 3.5 of the Listing Rules Guidelines  |
| 7 | V16<br>LR- 4.4  | The cross-reference should be LR-3.26 (2)   | V16 refers to LR-4.4 which pertains to the issuer's obligation to maintain a free float of at least 10% of the total issued outstanding shares.   |
| 8 | V11<br>LR-4.10  | <ul style="list-style-type: none"> <li>The cross-reference should be LR-4.13</li> <li>The 3 months should start from the date of receipt of invoice</li> <li>Disciplinary action should be reconsidered as the first action.</li> </ul> | <p>-Cross reference should remain LR-4.10 which pertains to the issuer's obligation to pay all fees and charges applicable to them to BHB in the full amount and manner specified and within such timeline as stipulated by BHB.</p> <p>-Noted</p> <p>-Payment of annual or registration fees promptly is important to ensure uninterrupted trading and the temporary suspension of trading is a suitable mechanism to allow for meeting date sensitive requirements.</p> |
| 9 | V17<br>LR- 4.14 | The cross-reference should be LR-4.17   | V17 refers to LR-4.14 which pertains to the issuer's board's obligation to report immediately to the BHB and CBB where it becomes aware of any suspected fraud or irregularity or suspected infringement of any laws/regulations which has or is likely to have material impact on the issuer's operating results or financial position.  |

|    | Reference                               | Industry Comments  | BHB's Response  |
|----|---|--|---|
| 10 | V18<br>LR-4.25                          | The cross-reference should be LR-4.34  | V18 refers to LR-4.25 which pertains to the issuer's obligation to maintain an accurate and updated securities share register in the agreed format.   |
| 11 | V19<br>LR- 4.30                         | The cross-reference should be LR-4.37  | V19 refers to LR-4.30 which pertains to the issuer's obligation to pay all dividends (including bonuses) within a maximum of 10 market days from the record date.   |
| 12 | V1<br>LR-5.3                            | Does the suspension occur after receiving a formal refusal for clarifying information?   | The suspension will occur immediately when it becomes evident to the BHB that material information has not been made public by the listed company.  |
| 13 | V01<br>LR-5.3                           | BHB should always communicate with the designated representative of the listed companies, and they should consider the violation to disclose material information only when the designated representative explicitly refuse to disclose the information otherwise this would be judgmental to BHB personnel. | NC  |
| 14 | LR-5.3<br>LR-5.5(11)<br>LR-4.14         | For the following rules/violation, a delay period should be clearly mentioned before it is considered a violation  | Such rules impose the requirement for immediate disclosure which is self-explanatory.   |
| 15 | V13<br>LR-5.5 (10)<br>LR-6.3<br>LR-6.15 | The cross-referencing isn't matching the violation type i.e. LR-6.15 isn't in the listing rules  | V13 refers to: <ul style="list-style-type: none"> <li>▪ LR-5.5(10) which pertains to the issuer's obligation to immediately notify the BHB of any proposed change in capital after board and shareholder approval.</li> <li>▪ LR-6.3 which pertains to the issuer's obligation to secure approval of shareholders and the related regulators upon intending to issue additional equity securities.</li> <li>▪ LR-6.15 which pertains to the issuer's obligation to make prompt announcements when intending to make any change in its capital.</li> </ul> |

|    | Reference                                      | Industry Comments                                       | BHB's Response  |
|----|--|---|---|
| 16 | V7<br>LR-5.5 (11)                              | The cross-reference should be LR-5.6 (11)               | V07 refers to LR-5.5(11) which pertains to the issuer's obligation to immediately notify the BHB for announcement of the same on its website, an appointment or resignation of any Director, CEO, general manager or other executive officer of equivalent rank in the agreed format.   |
| 17 | V10<br>LR-5.5 (16)                             | The cross-reference should be LR-5.6 (14)               | V10 refers to LR-5.5(16) which pertains to the issuer's obligation to submit, in writing, the date, time and place of any general meeting to the BHB and shareholders at least 21 days before the meeting.  |
| 18 | V8<br>LR-5.5 (20)                              | The cross-reference should be LR-5.6 (18)               | V08 and V09 refer to LR-5.5(20) which pertains to the issuer's obligation to provide the BHB with notices convening board meetings at least 5 days before the quarter ends.   |
|    | V9<br>LR-5.5 (20)                              | The cross-reference should be LR-5.6 (18)               |   |
| 19 | V12<br>LR-5.5 (31)<br>LR-5.5(32)<br>LR-5.5(33) | The cross-reference should be LR-5.6 (29) – LR-5.6 (30) | <p>V12 refers to:</p> <ul style="list-style-type: none"> <li>▪ LR-5.5(31) which pertains to the issuer's obligation to submit any decision by the board to purchase its own shares for shareholder approval – and the outcome of the shareholders' meeting must also be notified immediately.</li> <li>▪ LR-5.5(32) which pertains to the issuer's obligation to notify the BHB of any purchase or sale, transfer and/or use of treasury shares in the specified manner.</li> <li>▪ LR-5.5(33) which pertains to the Treasury shares transactions being disclosed on the Bahrain Bourse's website.</li> </ul> |
| 20 | V3<br>LR-5.6                                   | The cross-reference should be LR-5.7                    | V03 and V04 refer to LR-5.6 which pertains to the issuer's obligation to submit the required specimens (summary of financial results) to the BHB in both English and Arabic for announcement for the year end and for each quarter immediately after the figures are approved by the issuer's board meeting.  |
|    | V4<br>LR-5.6                                   | The cross-reference should be LR-5.7                    |   |

|    | Reference                         | Industry Comments  | BHB's Response  |
|----|-----------------------------------|--|---|
| 21 | V5<br>LR-5.7<br>LR-5.8<br>LR-5.13 | The cross-reference should be LR-5.8 LR-5.13   | V05 and V06 refer to: <ul style="list-style-type: none"> <li>LR-5.7 which pertains to the issuer's obligation to submit financial statements for each of the first three quarters immediately after the figures are approved by the board, but not later than 45 days after the end of the period.</li> <li>LR-5.8 which pertains to the issuer's obligation to submit the annual audited financial statements immediately after the figures are approved by the board, but not later than 60 days after the end of the financial year.</li> <li>LR-5.13 which pertains to the issuer of a closed shareholding company's obligation to submit its 5 financial statements and the notes to the financials at least for the first half of the year no later than three months after the end of the period and shall submit its annual audited financial statements no later than three months after the end of the financial year.</li> </ul> |
|    | V6<br>LR-5.7<br>LR-5.8<br>LR-5.13 | The cross-reference should be LR-5.8 LR-5.13   |   |
| 22 |                                   | For further clarity, we recommend if the number of days/deadline is specified against each requirement (i.e. number of days allowed for responding on news or rumors, number of days for submitting financials/paying dividends and a specifying the exact timeframe when referring to the term 'immediate' disclosure etc.) | The deadline for submitting the financials and the dividends payment already specified in BHB Listing Rules.<br>As for the requirement for immediate disclosure, it is self-explanatory.  |
| 23 |                                   | The disciplinary actions set out in the table refer to "immediate suspension" and "suspension". It is unclear what the difference is or why the terms are used interchangeably.  | Noted, will be amended.   |
| 24 |                                   | Some of the disciplinary actions mention that suspension will remain in effect until certain information is received or submitted whereas under some violations the suspension term is unspecified.<br>Where it is unspecified, how long would the suspension on trading remain in effect?                                   | Noted, will be amended.   |

|    | Reference | Industry Comments   | BHB's Response   |
|----|-----------|---|--|
| 25 |           | <p>Prior to imposition of fines, there should be clear prescribed administrative proceedings with the opportunity of the issuer to respond to the proposed fine. Suggested mechanism is similar to the one adopted by the Central Bank of Bahrain.</p> <p>Suggested Clause:</p> <p>Prior to imposing any fines, Bahrain Bourse must deliver to the issuer a written notice containing the following:</p> <p>The violations committed by the Issuer with respect to the Listing Rules of Bahrain Bourse , the resolutions and bylaws issued in enforcing thereof, or of the terms and conditions of the Issuer, accompanied by the evidence and proves that convinced Bahrain Bourse that such violation had occurred;</p> <p>The fine or administrative proceedings intended to be imposed upon the Issuer; and</p> <p>The grace period to be allowed for challenging the intended fine or administrative proceedings, which should not be less than thirty days as from the date of serving the notice.</p> <p>The Issuer shall have the right to submit a written objection to the contents of the notice served pursuant to the abovementioned, within the period specified in the same notice, provided that the objection is duly justified and accompanied by supporting documents, information and data.</p> <p>Bahrain Bourse must consider the objection and issue the appropriate resolution, provided that such resolution is served to the objector within thirty days of submitting such objection."</p> | Detailed information about the appeal process has been provided in the LR. |
| 26 |           | <p>While issuer's violation provisions are essential to promote fair and transparent market, we believe there should be provisions for waivers or reduction in fines if non-disclosure is due to unforeseen circumstances such as damages to records, government interference or natural disasters etc.</p>   | Refer to LR-2.15   |

|    | Reference | Industry Comments   | BHB's Response  |
|----|-----------|---|---|
| 27 |           | <p>Under the Methodology section, the fines are categorised as “First”, “Second” and “Third” fines based on the impact and frequency of a violation.</p> <p>On the other hand, in some instances under the Fines Schedule, a fine is imposed as a disciplinary action on a second or third time violation and not necessarily on a first time violation.</p> <p>Does this mean that a “First Fine” could be applied to a second or third time violation?</p> <p>Additionally, if the fines are categorized based on the frequency of a violation then how would a “Low Frequency, First Fine” be applied to a third time violation?</p> <p>The application of the fines is unclear.</p>   | <p>Yes,</p> <p>NC, since each individual circumstances are unlikely to be identical and may warrant different disciplinary responses. As such, the BHB will be considering multiple aspects when deciding on imposing a fine at any point in time (i.e. whether first, second or third occurrence of the contravention). This includes the impact of the violation and its seriousness, among other things.</p>   |
| 28 |           | <p>How are V15, V16 and V17 assessed?</p> <p>V15 is on violating the requirement for having a listing of shares exceeding 30% of the Issuer's share capital on a secondary market.</p> <p>Paragraph 1.5 provides that a fine up to BD100,000 shall be imposed annually for each secondary market on which an Issuer's shares are listed.</p> <p>Paragraph 1.6 provides that reoccurring violations falling on the next calendar year would be considered a first time violation.</p> <p>The last paragraph under “Methodology” states that where an Issuer fails to adhere to this requirement for three consecutive years, the violation shall be forwarded to the Disciplinary Board.</p> <p>V15 goes on to state that a Non-Compliance letter will be issued and a fine imposed on all first, second and third time violations.</p> <p>The application appears to be contradictory with paragraphs 1.5 and 1.6.</p> <p>Additionally, how often is compliance with the requirements stated under V16 and V17 assessed and on what basis would the violation be considered a first, second and third time violation bearing in mind paragraph 1.6?</p> | <p>- To clarify the violation of LR-3.35, please note that, for the first three years, BHB shall impose a fine of BD 100,000 (i.e. without escalation) on issuers with secondary listing(s) that exceed 30% of its share capital in the secondary market(s).</p> <p>For this particular violation, escalation occurs after 3 years, where the matter will require examination by the Disciplinary Board of the BHB.</p> <p>-In relation to the frequency of assessing listed companies' compliance with V16, this is explained in point 3.5.2. of the Listing Guidelines which notes the following:<br/> <i>“Free Float figures will be reviewed by BHB on quarterly basis.”</i></p> <p>-V17, Issuers shall adhere to the requirements of the corporate governance code issued by the MoIC and the high level of controls module issued by the CBB. To clarify further, V17 will be assessed as and when it comes to the CBB's attention that a suspected fraud or irregularity or suspected infringement of any laws/regulations (which has or is likely to have material impact on the issuer's operating results or financial position) has taken place.</p> |

|    | Reference | Industry Comments  | BHB's Response  |
|----|-----------|--|---|
| 29 |           | Additionally, we believe a provision is required to disclose non-compliance violations/fines to the public to ensure transparency within the market and in order for market participants to be aware of the violations by listed entities.                                   | Noted   |
| 30 |           | Although the paper is pertinent to listed entities (issuers), it is not clear what implications the BHB monetary fines will have on us as a Clearing & Settlement Bank to BHB, and if any additional responsibilities/requirements may arise from this proposal.             | Not related – NC  |
| 31 |           | It may be noted that delay in or failing to submit AGM/OGM minutes of the meeting is not included in the violations schedule.  | This is already captured under violation references (V01 & V02) from the Issuers' Violations which relate to issuers providing any material information.  |
| 32 |           | We kindly seek further clarification on the violation regarding failure to report fraud related to BHB and CBB as per LR 4.14  | Issuers shall adhere to the requirements of the corporate governance code issued by the MoIC and the high level of controls module issued by the CBB. To clarify further, V17 relates to LR-4.14 pertains to the issuer's board's obligation to report immediately to the BHB and CBB where it becomes aware of any suspected fraud or irregularity or suspected infringement of any laws/regulations which has or is likely to have material impact on the issuer's operating results or financial position. |
| 33 |           | The proposal is referring on couple of instances to sections in the Listing Rules of the BHB (i.e. clauses 2.36 & 2.35). The Listing Rules has not yet been issued, and last circulated was in a consultation phase dated May 10, 2018 under the reference number LP/8/2018. | Please refer to the latest version of the Listing Rules as published on BHB's website.  |
| 34 |           | There are similarities in the contents under clauses 1.3 and 1.4 of the General section of the proposal, and the introductory paragraph of the Methodology section of the proposal.  | Will be amended   |



|    | Reference | Industry Comments   | BHB's Response   |
|----|-----------|---|--|
| 35 |           | <p>We are of the opinion that the schedule of the factors considered in the assessment of the violations under clause 1.3 should be elaborated to consider or include other factors such as:</p> <ul style="list-style-type: none"> <li>• How the rule breach came to light,</li> <li>• The seriousness, size and nature of the rule breach,</li> <li>• The compliance history of the Issuers, and specific history regarding the rule breach in question,</li> <li>• Why the rule breach occurred,</li> <li>• Has the Issuer taken remedial action to ensure non-occurrence of the breach,</li> <li>• Whether the remedial actions were adequate to prevent similar future occurrence,</li> <li>• Consistent and fair application of the rules (ie whether the same rule was previously breached by the issuer), and</li> <li>• The responsiveness and conduct of the Issuer in relation to matter under Investigation.</li> </ul> | Noted, related to the internal risk violation assessment checklist   |
| 36 |           | <p>It is also recommended that the following factors under the Methodology section should be included under clause 1.3 of the General section:</p> <ul style="list-style-type: none"> <li>• The risk to the shareholders and to the market</li> <li>• Repetition of violation</li> <li>• The monetary benefit to the Issuers</li> </ul>   | Will be considered under 2.1 of BHB Issuers Violations   |
| 37 |           | It is also suggested that the proposal should incorporate a time frame for payment of the fees, and take into consideration the time frame of the appeal process.   | Detailed information about the payment time frame and the appeal process has been provided in the LR.                    |
| 38 |           | The paper is referring to Appendix 1 under the Methodology section for the calculation of the risk assessment, however, such appendix was not provided along with the paper to be assessed by the consultee.  | Appendix 1 will be for BHB internal use only. However, the risk assessment factors are mentioned under the same section. |

|    | Reference | Industry Comments  | BHB's Response   |
|----|-----------|--|--|
| 39 |           | The Methodology section indicates that risk assessment of the actions undertaken by the Issuers is based on the impact and frequency of the violations, the frequency status is contradicting with clause 1.6 above that indicates any reoccurring violation falling on the next calendar year will be considered a First Violation.   | NC, the impact/frequency matrix does not contradict Paragraph 1.6 (which is changed to Paragraph 1.5) for this reason: It is to be interpreted in the sense that a reoccurrence of a violation in the next calendar year will be considered a First Violation whereas the frequency/impact matrix is examining escalation of fine imposition within the same year. |
| 40 |           | There is no mapping between the Impact (low, medium, & high) categories in table under Methodology section, and the actual violations under Fines Schedule, which requires clarifications and guidance from the BHB in the proposal to assist Issuers in determining the impact of each violation.   | Mapping between the violations table and the frequency/impact matrix is not feasible since this is strictly on a case by case basis.   |
| 41 |           | The Bank is of the opinion that BHB should incorporate in its paper a process for Issuers to Appeal against any enforced penalties. The paper should spell out the appeal procedure by Issuers along with a time frame for their appeal. It should also indicate that appeal process by the BHB (similar to the Central Bank of Bahrain rule book).  | Detailed information about the appeal process has been provided in the LR.   |
| 42 |           | It is further suggested that the penalty enforcement panel should be separate from the appeal receiving panel.   | Individuals examining violations and deciding on enforcement actions are independent of those to be subsequently engaged in the appeal process for avoidance of any conflicts of interest.   |
| 43 |           | Clarity is required in respect of violations referenced 01 & 02, as to what is considered to be material information and supported with examples. This to avoid any confusion that may create with the Issuers in determining the material information, as a practice, Issuers may sometimes receive queries from BHB in respect of news materials that was made during interviews with executives of the Issuer. Such example is of importance, similar to the ones under the Specific Information list as indicated in Section 5, Part 3 of the BHB Listing Rules. | Refer to LR-5.5  |

|    | Reference | Industry Comments   | BHB's Response   |
|----|-----------|---|--|
| 44 |           | <p>In some of the violations for the first time, the Issuers may face suspension or fines. It is of the opinion that the BHB should consider the factors indicated in the paragraph 3 above, and restrict the action to only a warning. So rather than indicating the disciplinary action as:</p> <ul style="list-style-type: none"> <li>• Suspension</li> <li>• Non-Compliance letter</li> <li>• Fine</li> </ul> <p>Should state</p> <ul style="list-style-type: none"> <li>• Suspension, or</li> <li>• Non-Compliance letter/Warning, or</li> <li>• Fine</li> </ul> | <p>NC, the violations may differ in nature in terms of seriousness and impact. It is unreasonable to expect similar enforcement measures to be imposed on the first occurrence of every violation without regard for other parameters.</p> |