

Association of Global Custodians¹
Middle East and Africa Focus Committee (“AGC ME&A”);
Subject to Supplemental Comments

Central Bank of Bahrain
PO Box 27
King Faisal Highway
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Manama
Kingdom of Bahrain

consultation@cbb.gov.bh

Dear Sir,

Re: Trade and Custody accounts in Bahrain

The AGC ME&A would like to take the opportunity to briefly convey members' concerns regarding the existing trade and settlement model in Bahrain.

As you are aware, currently custodians are required to transfer securities from the client's custody account to the trading account before the broker can instruct the trade on the exchange. This poses a significant risk to the custodian and underlying clients as the custodian loses all control over the assets until the instruction has settled.

We understand from discussions with the Bahrain Bourse that you are currently considering changing this model to be aligned to both international standards as well as other markets in the Middle East (e.g. Jordan, Saudi Arabia and Kuwait who have taken steps to remove this model). In noting that Bahrain is the last country adopting this trading account settlement model, the AGC ME&A endorse and encourage the implementation of a change.

Further, we note that while the change in settlement models differed between the various jurisdictions, with some countries removing the trading account completely and other jurisdictions opting to maintain it, all models adopted ensured that the custodian retained control over the assets until settlement date and made provision for the custodian to reject a broker's instruction after the broker was obligated to settle the trade.

By way of example, in January 2017, Saudi Arabia introduced a new settlement model whereby the trading account was removed. The custodian has 'Access Accounts' that are used for trading, settlement and safekeeping. The custodian can open several Access Accounts, restrict trading from such accounts to specific brokers and can reject broker trades after which it becomes the Broker's responsibility to deliver the securities or the cash.

In October 2017, Jordan introduced a model that maintained the trading account but no longer required to prefund the securities before trading. Custodians have the possibility to accept or reject a broker

¹ The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company. For more information visit www.theagc.com.

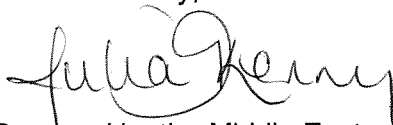
transaction. On settlement, the securities will move from the seller's custodian account, through the trading account into the buyer's custody account.

We would now welcome the adoption of a settlement model (including removing the manual intervention currently required by the custodian and broker) that ensured that the custodian retained control over the assets until settlement date and made provision for the custodian to reject a broker's instruction after the broker was obligated to settle the trade.

We look forward to discussing these matters with you. The AGC ME&A Committee communication details are as follows:

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Chairperson of AGC ME&A
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Yours sincerely,



Prepared by the Middle East and Africa Association of Global Custodian Committee,
Julia McKenny, Chairperson. 10 April 2018

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