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Bahrain

Accounting

FUNDS AND FUND MANAGEMENT 2009

1.0 Accounting

A distinction has been made between schemes that are established and marketed in/from Bahrain and schemes that are established outside Bahrain and marketed in Bahrain. The following requirements are applicable only to schemes which are established and marketed in/from Bahrain.

1.1 Requirement to produce financial statements

Requirement to maintain the books and records in the local jurisdiction

The Central Bank of Bahrain (the CBB) formerly known as the Bahrain Monetary Agency regulation with respect to the general supervision, operation, and marketing of collective investment schemes issued in November 1992 requires all schemes to keep proper, complete, and separate accounting records.

All accounting records of a scheme must be maintained and updated in the country. Semiannual and annual accounts must be prepared in the country and any dividends issued must be from the country.

Production of financial statements by collective investment funds

A scheme is required, under the Principles of Supervision, Operation, and Marketing issued by the CBB in November 1995, to publish and supply to the CBB, the investors, and the potential investors in accordance with its scheme documents, the following:

- An audited annual report of the scheme for each financial year within three months from the end of such year, prepared in accordance with International Financial Reporting Standards and audited by an auditor approved by the CBB
- An unaudited half yearly report covering the first six months of the financial year, within two months from the end of such period
- Any other information as the CBB may stipulate from time to time

Schemes are also required under a circular issued by the CBB, to submit to the CBB, quarterly returns summarizing key information relating to the schemes, that is, name and type of the scheme, duration of the scheme, overall subscriptions in the scheme, net asset value of the scheme, type of investment, geographical location of the investment, and the approval authority for the scheme.

The directors of the scheme are responsible for the preparation of the financial statements.

Although there is no specific requirement in the CBB's regulation, principles, or any guidelines for the regulation of collective investment schemes that directors have to sign the financial statements, it has been clarified by the CBB that the directors of the scheme are ultimately responsible for the preparation of the financial statements of the scheme and hence are required to sign the financial statements presented to the unit holders.

Choice of period/year-end for collective investment funds

Every scheme is required to obtain the approval of the CBB along with other scheme documents and the year-end date the scheme proposes to choose. Once chosen, the scheme cannot alter the year-end without the prior approval of the CBB.

Requirements for comparatives

Financial statements of schemes are required to be prepared in accordance with International Financial Reporting Standards (IFRS) and hence are required to show comparative figures for the previous year/period in the financial statements.

Restrictions on the currency under which financial statements must be prepared

The reporting currency is generally specified in the prospectus of the scheme, which is approved by the CBB. It must be any legal currency in existence at the end of the financial year.

Accounting publications specific to the funds industry (as issued by accounting bodies or the regulators)

There are no accounting publications specific to the funds industry issued by the accounting bodies in the Kingdom of Bahrain. The schemes are required to prepare annual financial statements in accordance with IFRS and hence are required to follow the accounting and disclosure requirements specified in IFRS.

Use of short form accounts

The CBB's principles for regulation of collective investment schemes require that each scheme shall, in accordance with its scheme documents, prepare unaudited half yearly financial statements covering the first six months of the financial year within two months from the end of such period. The semi annual financial statements are required to contain financial information in a summarized form. No specific guideline has been issued by the CBB on the format required for these summarized financial statements. However, the CBB expects the half yearly financial statements to be reviewed by the external auditor.

Umbrella schemes

A mutual fund investment company representing an umbrella scheme, licensed by the CBB, and governed by the provisions of Bahrain Commercial Companies Law is required to prepare a separate set of financial statements.

An umbrella scheme normally does not consolidate the separate individual financial statements of the sub-schemes launched under its umbrella because a combined net asset value of the umbrella scheme is not a meaningful indicator, since each sub-scheme within the umbrella would not normally have common unit holders. However, if a sub-scheme meets the criteria of control specified under IAS 27, then the financial statements of such sub-scheme should be consolidated with the financial statements of the mutual fund investment company / umbrella scheme.

A separate set of financial statements is required for each sub-scheme as the CBB's principles for regulation of collective investment schemes specify that each sub-scheme under the umbrella will be treated as a separate scheme and all the rules of the CBB will apply as though these were separate schemes, unless otherwise expressly stated in the regulation/principles.

A separate set of financial statements should be produced for each sub-scheme as each sub-scheme normally has a different set of investors and its activities are ring fenced from the activities of other funds.

Classes of shares

There is no requirement currently in the CBB's legislation which deals with different classes of shares.

1.2 Requirement to audit financial statements

The CBB's principles require the annual financial statements of collective investment schemes regulated by the CBB to be audited. Audited accounts must be completed within three months of year-end. There is no requirement to audit the half yearly financial statements.

The audit is required to be carried out by a firm of accountants approved by the CBB.

1.3 Publication of financial statements by collective investment funds

All collective investment schemes are required to make available a copy of the annual and semiannual financial statements to the following parties:

- The CBB
- To all prospective investors free of charge before the conclusion of an agreement to subscribe for shares in the scheme
- To the public at a place specified in the prospectus
- To all the investors free of charge on request

There is no other specific requirement to publish the financial statements apart from the above stipulations. The CBB has clarified that the most important aspect is that all investors should be supplied with a copy of the financial statements.

The annual audited financial statements are required to be submitted to the CBB within three months from the end of such financial year. The semiannual financial statements are required to be submitted to the CBB within two months from the end of such period.

1.4 Accounting standards

The CBB's principles require the financial statements of all collective investment schemes regulated by the CBB to be prepared in accordance with International Financial Reporting Standards.

1.5 Contents of financial statements

Requirements for inclusion in annual financial statements:

	Required by law	Required by GAAP (IFRS)	Complied with for Best Practice
A statement which includes all income less expenses plus realized and unrealized gains and losses	Yes	Yes	Yes
A statement which only includes income less expenses	No	No	No
A statement which only includes income less expenses plus realized gains and losses	No	No	No
Statements of net assets and liabilities	Yes	Yes	Yes
Statement of changes in net assets	No	No	No
Cash flow statement	Yes	Yes	Yes
Statement of accounting policies	Yes	Yes	Yes
3 year net asset value table	No	No	Yes
5 year net asset value table	No	No	No

1.6 Accounting treatments and disclosures

The following items must be included in the annual financial statements:

	Required by law	Required by GAAP (IFRS)	Complied with for Best Practice
Futures are shown on balance sheet using the grossed up notional amount	No	No	No
Futures are shown on the balance sheet based on the margin outstanding	No	No	No
Futures are shown on the balance sheet based on the margin outstanding and the margin paid to date	Yes	Yes	Yes
Organization costs are written off immediately	Yes	Yes	Yes
Organization costs are amortized over one year	No	No	No
Organization costs are amortized over more than one year	No	No	No

	Required by law	Required by GAAP (IFRS)	Complied with for Best Practice
Issue costs are charged to the statement of operations	Yes	Yes	Yes
Issue costs are netted off against creation proceeds	No	No	No
Contingent deferred sales charges are recorded as income	No	No	No
Contingent deferred sales charges are netted off against redemption proceeds	Yes	Yes	Yes
Holdings in other collective investment funds are consolidated if the fund holds > 50% of the underlying collective investment fund's shares	Yes	Yes	Yes
Methods used in financial statement presentation to measure listed investments are:			
Cost	No	No	No
Market value:			
bid	No	No	Yes
mid	No	No	No
offer	No	No	No
close	No	No	No
price at any time during the day	No	No	No
The financial statements distinguish between income and capital	Yes	Yes	Yes

Appendix 1

Reference Material

The following details the relevant laws and regulations for collective investment funds and fund management companies and provides web addresses (in certain instances) for where this material can be located:

Accounting pronouncements

No specific items relevant to the funds industry.

Regulator

The regulator for investment funds in the Kingdom of Bahrain is the Central Bank of Bahrain whose website is www.bma.gov.bh

Stock exchange

The Bahrain Stock Exchange web site address is www.bahrainstock.com
However, the listing rules are not directly available for viewing on the website.

Taxation authority

None

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.