

CHAPTER THREE

Supervisory and Regulatory Instructions and Controls, and Organization of Business in Exchange Companies.

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1- Instructions requiring exchange companies not to make any debt repayments to other parties using foreign exchange operations with third parties.	06/03/1985
2- Instructions urging exchange companies to adhere only with advertisement of authorized businesses included in their company's main contract.	19/07/1986
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4- Instructions on the accounting treatment of deposits of exchange companies' clients for dealing in forward exchange and precious metals contracts.	21/03/1989
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12- The importance of maintaining an internal written regulatory system, approved by the higher management of the company.	16/04/1995
13- Instructions requiring exchange companies to exclude the amounts of checks and transfers, which were uncollected by their customers and of more than five-year-old (from date of issue), from their revenues and expenditures statement, unless after a period of fifteen years.	08/05/1996
14- Exchange companies are required to provide the Institute of Banking Studies with the required data regarding their labor force when directly requested by the Institute.	06/06/1996
15- Instructions requiring exchange companies to present the letters sent by the Governor, concerning the final results of the inspection, to all company's main partners, following the receipt of such letters.	13/08/1996
16- Circular emphasizing the content of circular dated 13/08/1996 which requires exchange companies to present the letters sent by the Central Bank of Kuwait, concerning the final results of the inspection, to all company's main partners, following the receipt of such letters and providing CBK with evidence to that effect.	06/03/2012
17- Instructions requiring exchange companies to provide the Central Bank of Kuwait with a copy of all agreements concluded with foreign banks/financial institutions.	20/08/1996
18- Project Management Plan for the Year 2000. a) Circular No. (2/ES/44/97) to exchange companies to provide the Central Bank of Kuwait with a quarterly report indicating the accomplishments made towards your company's information systems readiness. b) Measures to be considered in achieving compatibility with the year 2000 requirements on the right time, on the emphasis of Circular No. (2/ES/44/97) dated 18/08/1997. c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.	18/08/1997 23/06/1998 04/08/1998
19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues. 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.	24/12/1998

2) Pilot General Framework of the Contingency Plan for the Year 2000, which should be set out by the end of the second quarter of 1999 and submitted to the Central Bank of Kuwait.	
20- Controls and measures for opening new branches for exchange companies.	28/09/1998
21- Circular concerning the amendment introduced to Item “Eighth” of the instructions for opening exchange companies’ branches, whereby such approval will be valid for one year.	18/05/2006
22- Circular No. (2/ES/70/1999) prohibiting exchange companies from practicing any operation, which may result in gaining positions in foreign currencies, or speculation in the currency, commodity and precious metals markets, whether for the company or for others, and providing the Central Bank of Kuwait with quarterly statements of the company’s accounts with financial and banking institutions, as per the form attached.	31/05/1999
23- Circular No. (2/ES/261/2010) requiring exchange companies to provide the Central Bank of Kuwait with a monthly statement approved by the company’s external auditor on the positions of company’s correspondents’ accounts.	24/06/2010
24- Circular No. (2/ES/72/99) on the General Guidelines of Internal Supervision Systems of Exchange Companies.	05/09/1999
25- Circular concerning steps to be taken to facilitate purchase, sale of the Euro currency as of 1/1/2002.	17/09/2001
26- Circular concerning national labor force ratio in exchange companies.	
a) Circular No. (2/ES/160/2004) on the time-frame for compliance with national labor force ratios in exchange companies as stated in article (71 bis) of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business.	24/05/2006
b) Circular concerning follow up on national labor force ratio in exchange companies, which must be at least 50% of total labor force or the percentage the Council of Ministers specifies in implementation of provisions of Article (9) of law No. 19/2000, whichever is higher.	21/09/2006
c) Circular concerning the requirement to notify the CBK with periodical employees list, as on 15/3/2007.	21/02/2007

d) Law No.64/2007 concerning amendment to the first paragraph of Article (71 bis) of Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, as amended.	25/12/2007
e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 3/11/2008 and published 9/11/2008 concerning the ratio of national labor in non-government entities.	09/11/2008
f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 7/12/2008 concerning the ratio of national labor in non-government entities.	07/12/2008
g) Circular concerning instruction that exchange companies continue to provide the CBK with bi-annual statement indicating company staff information.	06/07/2008
h) Council of Ministers Resolution No. 1028 for the Year 2014 Concerning Amendment to Council of Ministers Resolution No. 1104/Fifth for the Year 2008, published 24/8/2014 concerning specification of ratio of national labor in non-government entities.	04/08/2014
i) Resolution No. 1868 for the year 2018 published 20/1/2019 concerning amendment of some provisions of Council of Ministers Resolution No. 904 for the Year 2002 Specifying Ratio of National Labor Force in non-Government Entities, where the ratio was increased to 15% in exchange companies.	09/01/2019
j) Circular to exchange companies with instruction to provide CBK with national labor ratio statement as on 20/7/2019, with due consideration to the issuance of Council of Ministers resolution No. 1868 for the year 2018, which increased the national labor ratio to be observed by exchange companies to 15%.	04/03/2019
k) Correction on Council of Ministers Resolution No. 1868 for the year 2018, published 31/3/2019, specifying national labor ratio to be observed by non-government entities.	09/01/2019
l) Circular to exchange companies concerning compliance with the requirement of submission of the statement indicating development of national labor ratio on bi-annual basis.	06/08/2019
27- Circular with attached letter from Governor of the Central Bank of Syria concerning issue of a circular to all banks operating in the Syrian Arab Republic with instructions not to execute any incoming foreign money transfers from an exchange company except under specific conditions.	23/11/2008

28- Circular indicating Central Bank of Kuwait's objection to exchange companies offering money transfer services to customers through the internet using K-NET bank cards without obtaining prior CBK approval.	18/10/2010
29- Circular concerning the technical requirements to be satisfied by exchange companies when providing money transfer service to customers through the internet using bankcards.	15/08/2011
30- Circular concerning the technical requirements to be satisfied by exchange companies when providing a mobile vehicle banking unit service.	20/04/2011
31- Circular (2/BS/IBS/IS/IIS/FS/IFS/ES/280/2012) urging caution and verification of the identity of any callers before engaging in any interaction with or processing a transaction for them.	08/02/2012
32- Circular concerning regulating the opening of accounts by exchange companies with local banks.	21/06/2012
33- Circular No. (2/ES/293/2012) concerning the requirement to notify the CBK of any embezzlements of company funds.	10/10/2012
34- Circular No. (2/ES/294/2012) instructing exchange companies to obtain prior CBK approval before initiating any communication with financial or banking supervisory bodies in other countries.	13/12/2012
35- Instructions (2/BS/IBS/FS/IFS/ES/340/2014) to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision concerning the regulating of buying, sale, and disposal of own shares.	21/10/2014
36- Circular (2/ES/420/2018) to all exchange companies concerning the provision of exchange services through mobile vehicles.	09/09/2018
37- Instructions for Regulation of the Electronic Payment of Funds. a) Circular No. (2/BS, BS, IBS/415/2018) to All Local Banks, Exchange Companies and Financing/Investment Companies Regarding Instructions for Regulation of the Electronic Payment of Funds.	23/09/2018
38- Circular to Exchange Companies Regarding Controls and Measures for Opening New Branches for Exchange Companies.	07/09/2022

THE GOVERNOR

14 Jumada Al-Akhirah 1405 H
6 March 1985

The Chairman of the Board of Directors,

The Central Bank of Kuwait would like to inform all stock companies, investment companies and exchange companies not to make any debt repayments to other parties using foreign exchange with third parties.

Accordingly, your company should comply with the aforesaid instruction and stop such repayments to other parties.

With my best wishes,

Salem Abdul Aziz Al-Sabah
The Governor

THE MANAGER

13 Thu Al-Qe'dah 1406 H
19 July 1986

The General Manager,

In view of the advertisements of unauthorized activities and services, by some of the exchange companies, the Central bank of Kuwait urges your company to adhere only with advertisement of authorized businesses included in company's main contract. The Central bank of Kuwait shall take necessary actions towards noncomplying companies.

Best regards,

Acting Manager
Ahmed AL-Abdulla Al-Sabah

THE MANAGER

14 Jumada Al-Akhirah 1409 H
21 January 1989

The General Manager,

The Central bank of Kuwait (CBK) was instructed to inform banks and stock companies supervised by the CBK in accordance with the Council of Ministers Resolution No. 40/87, regarding the enforcement of article (15) of the Civil Information Authority, stipulating that **“government authorities, banks, companies, universities, schools, societies, clubs and other public / private entities and individuals are not allowed to hire any employee, servant, worker, member or student who has no civil ID”**.

We urge you to enforce the abovementioned provision regarding present and future hiring, for public best interest.

Best regards,

Manager of Banking Supervision
Hameed Ahmed Al-Rasheed

THE GOVERNOR

*14 Sha'ban 1409 H
21 March 1989*

The General Manager,

We enclose herewith “instructions on the accounting treatment of deposits of exchange companies’ clients for dealing in forward exchange and precious metals contracts”.

Therefore, you should abide by the aforesaid instructions and adjust your clients’ financial positions as of the date hereof accordingly.

With my best wishes,

**Salem Abdul Aziz Al-Sabah
The Governor**

**Instructions on the accounting treatment of deposits of
exchange companies' clients for dealing in forward exchange
and precious metals contracts**

Whereas the main specifications of bank cash deposits, in accordance with Article 329 of Commerce Law, are to be owned and used by the bank within the context of its business activities with an obligation to repay the deposit amount to the depositor,

And as such specifications are not available in the deposit or the “margin” paid by the clients of exchange companies in line with this activity regulations stipulating that, deposits paid to an exchange company for such purpose shall not be owned by the company, nor be partially or totally repaid, as in the case of bank cash deposits which is substantially different. Settlement of such amounts shall depend on the results of the transactions carried out on behalf of the client.

Accordingly, in order to clarify the special nature of the “margin” paid by exchange companies' clients, and keep the clients aware of the specifications of bank cash deposits which exchange companies are not allowed to accept, such companies shall apply the following when treating such “margins”.

First Item

Deposit paid by a client as a margin to cover losses resulting from the transactions carried out by the exchange company on behalf of the client, are amounts paid by clients to cover any potential losses resulting from sale / purchase contracts signed between the client and the exchange company, covering long forward exchange and precious metals transactions.

When using the accounting treatment of such margins, exchange companies shall not use the term “cash deposit” in the registration or contract documents signed between the client and the company.

Second Item

The client's margin account shall not be transformed to debt account at any time. The account shall only carry the client's losses resulting from client's foreign exchange and precious metals transactions. This is aimed at maintaining the margin as a simple account, i.e. not similar to a current account where mutual payments between the company and the client are made. Exchange companies are not allowed to open current accounts.

Third Item

The client shall have a separate account where client's due profits as well as exchange company's due expenses and commissions resulting from the transactions carried out for client's account, shall be registered, provided that the margin shall always be sufficient to cover client's losses and the account balance, in case the client was a debtor. The margin account shall be discounted when contract losses (if any) are settled. The abovementioned contract balance shall be closed.

Fourth Item

The exchange company shall maintain the margins value in a bank account separately from the company's current account. Part of these margins might be with foreign banks or stock companies abroad (brokers), in which case the funds transferred to such banks and stock companies shall be maintained in a separate bank account.

Fifth Item

These instructions shall be effective as of the date hereof accordingly. Cases previous to the issuance of these instructions shall be adjusted in accordance with the abovementioned.

Issued on: 14 Sha'ban 1409 H
21 March 1989

THE DEPUTY MANAGER

30 Rabi' Al-Awwal 1410 H
30 October 1989

The General Manager,

The Central Bank of Kuwait, in its efforts to organize the business relation between the clients and the exchange companies, has decided that the contract signed by both parties shall be as per the attached form.

Accordingly, your company shall use the above-mentioned form in case it practices this type of exchange activity.

Best regards,

Deputy Manager
Essa Mohammed Al-Attal

Foreign Currency and Precious Metals Trading Contract

On the day..... Corresponding to / /

The following has been agreed by:

- 1- Company:exchange company
(LTD),
headquarter:
.....
legally represented by: (first
party).
- 2- Mr. /.....
Nationality No. (or passport No.)
Civil ID No. resident
(Second party).

Introduction

Whereas, the first party practices his activity in accordance with the license issued by the Ministry of Commerce and Industry No..... dated....., listed on the exchange company records with CBK under No.

Whereas, foreign currency exchange and precious metals trading is included in the activities performed by the first party, who has the technical abilities, experience and professional connections with global broker houses and markets, which enable him to, efficiently and accurately, seal deals in foreign currency and precious metals with global bourses and markets.

Whereas, the second party wishes to use the first party's potentials and experience for the purpose of foreign currency and precious metals dealing for his own account.

Having acknowledged their contracting eligibility, both parties have agreed to:

First: The above introduction shall be considered an integral part of the contract.

Second: The first party shall execute the second party's sale/purchase instructions/orders issued by the second party or his proxy for the second party's account. The instructions shall be given in writing or by cable, phone or telex, in which case the second party shall confirm it in writing, the next working day, maximum. The second party shall approve in advance the validity of instructions and orders received by the first party, and shall take responsibility of proving otherwise in case of denial.

- Third:** The first party shall act as a mediator between the second party and the sellers/purchasers in carrying out the foreign currency and precious metals sale/purchase transactions. Such transactions shall be carried out for the second party's account and in his name. Neither the first party nor any of his employees may interfere in the concluded contracts of such transactions or be part of it.
- Fourth:** The second party acknowledges his understanding of all risks involving foreign currency and precious metals dealing activity. The second party shall solely take responsibility of all losses resulting from practicing such activity, unless such losses are the result of the first party's or any of his employee's negligence in executing the second party's instructions. The second party, while welcoming the first party's advice/consultancy in foreign currency and precious metals dealing, acknowledges that the first party shall not be held responsible for any of the losses resulting from following such advice/consultancy.
- Fifth:** The second party's instructions shall be executed through broker houses recognized by the first party, they are:
- -
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- Sixth:** The second party shall pay the deposit (margin) amount, allocated to cover losses resulting from the transactions carried out as per the second party's order and for his account, and also to cover the second party's debt balance, as stated in item "Tenth" of this contract.
- Seventh:** The deposit (margin) amount shall be determined based on market's prevailing conditions at the starting date of the business relation with the first party. The said amount may be changed according to market's conditions and volume of the second party's transactions. The first party shall not be obligated to the second party's instructions regarding transactions of which the margin is not fully covered.
- Eighth:** The second party shall not transform the deposit (margin) account balance to debt account at any time, and shall immediately, upon a written or oral notification by phone, telex or by any other means, pay any increase required to reach the level needed in view of global markets trading conditions.
- Ninth:** The first party shall immediately notify the second party of any transaction carried out. The first party shall notify the second party of his daily account movements by registered mail. The statements received by the second party shall be used as evidence against him, if not objected to within three days from receipt date.

Tenth: The second party shall have a separate account where his due profits, as well as the first party's due expenses and commissions resulting from the transactions carried out on behalf of the second party shall be registered. In case the balance of this account was changed to debt, and the margin account balance was not sufficient to cover the losses that may result from the transactions, the second party shall increase the deposit (margin) balance by the discrepancy amount, in order to cover the debt balance of such separate account. The margin account shall be discounted when contract losses (if any) are settled. The abovementioned account balance shall be closed.

In all cases, no interest rate shall be payable on the amounts or balances in this account.

Eleventh: The first party shall maintain the (margin) amount in a separate account i.e. not in the company's current account. Part of this margin may be with foreign banks or financial institutions abroad (brokers), in which case the margins value transferred to such banks and financial institutions shall be maintained in a separate bank account.

Twelfth: The second party shall acknowledge that no interest shall be payable against the deposit (margin) balance, at any time. The money received by the first party shall not be considered a deposit and shall not be transformed to a deposit or current account by all means.

Thirteenth: The second party shall pay the first party a commission against the transactions carried out on his behalf subject to the type of contract signed, as follows:

Type of contract	Rate of commission per contract
Foreign currency contracts (SPOT) Precious metals contracts (SPOT) Currency & metals future contracts	

Fourteenth: It is agreed to that the above-mentioned commission rate shall be changeable from time to time in light of market conditions. The first party shall inform the second party of the new rates and enforcement date in writing. New rates shall only be applicable to transactions of contracts signed after the new rates implementation date.

Fifteenth: The second party shall accept any adjustment or change in the global bourses' regulations and international markets; he shall also abide by it and accept its enforcement on this contract.

Sixteenth: The second party s' center/centers shall be closed in the following cases:

- 1- At the second party s' request.
- 2- If the second party fails to cover the requested margin limit immediately after receipt of notification.

The first party may close the second party's center/centers in case of failure to pay him due commissions and expenses against any transaction made.

In all cases, closure shall be at the best price possible under market current conditions at the time.

Seventeenth: The second party shall be obliged to pay the first party due payments whether resulting from trading or compulsory or optional closure of center/centers, within one week from closure date or notification, whichever earlier.

Eighteenth: All correspondences shall be sent to the second party's address shown in this contract. The second party shall acknowledge that all correspondences sent by the first party to this address shall be deemed as read and fully noted, and he shall have no right to argue about not knowing of it.

Nineteenth: Conflicts regarding this contract shall be governed by Kuwaiti jurisdiction. Transactions related to this contract shall be subject to Kuwaiti Laws and the resolutions or instructions of the Central Bank of Kuwait.

Twentieth: This contract was issued in two copies. Each party shall keep a copy as a reference whenever necessary.

The first party

The second party

THE GOVERNOR

5 Jumada Al-Akhirah 1410 H
2 January 1990

The Chairman of the Board of Directors,

In enhancement of the exchange companies' role in foreign currency trading (sale/buy), which has its significance in the financial system of the State of Kuwait, the Central bank of Kuwait (CBK) has decided to, directly, sell exchange companies listed under its supervision, with US dollars, to cover their clients' need thereof.

Taking in consideration the particularity of this type of transacting, CBK has introduced the attached instructions in regulating such transacting between CBK and the exchange companies regarding direct dealing of foreign currency, which shall be effective as of 2 January 1990.

Accordingly, if you agree to the instructions in that concern and wish to get involved in it, in accordance with the terms and conditions stated therein, you are requested to submit a formal letter to the CBK in that regard.

With my best wishes,

Salem Abdul Aziz Al-Sabah
The Governor

Instructions
On Foreign Currency and Precious Metals Direct Transacting Between
the Central Bank of Kuwait and Exchange Companies

In accordance with the provisions of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait and organization of the Banking Business, its amending law No. 130/1977, and Ministerial Resolution issued on 19/04/1984 on subjecting exchange companies to CBKs' supervision.

In view of the significant role of the exchange companies in foreign currency trading (sale/buy), in covering clients' foreign currency requests.

The Central bank of Kuwait (CBK) has decided to, directly, sell exchange companies listed under its supervision, with US dollars in the form of mutual (sale/buy) deals in accordance with the following instructions:

First Item

Exchange companies in the context of the implementation of these Instructions are: exchange companies listed with CBK.

Exchange companies' clients are: traditional resident clients, other than banks, investment companies, exchange companies and individual exchange institutions.

Second Item

Exchange companies who wish to buy US Dollars from the CBK, in accordance with these Instructions, shall place a security with the CBK to cover its US Dollars purchase volume. The securities shall take the form of credit balances in a current account with CBK, public debt instruments issued by the Kuwaiti Government mortgaged with CBK, or in both two forms. The securities shall be existing at the time of transacting.

Third Item

The exchange company shall apply for the purchase of US Dollars at the foreign exchange room at the CBK. If the company wishes to buy an amount that exceeds its existing balance in its current account with the CBK, the company shall place additional securities in the form of public debt instruments, or place additional amounts of money in its current account with the CBK, before ten a.m. on the transaction day.

The CBK shall have the right to cancel the transaction if the securities stated in the above paragraph was not placed on the transaction scheduled day.

Fourth Item

The exchange companies' purchase of US Dollars shall not, by all means, exceed their clients' actual needs, such as: cash sale, check transfer orders and cash transfers, by cable or telex. clients' foreign currency requests for the purpose of such as: margin accounts, shall not be deemed as clients' actual needs of foreign currency.

The CBK shall not sell foreign currency to exchange companies intended for private trading.

Fifth Item

Exchange companies cooperating with the CBK in accordance with these instructions, shall sell any excess of main foreign currency to the CBK.

Sixth Item

The CBK shall inform exchange companies of further instructions if needed, based on the CBK's monitoring of exchange companies implementation of these instructions. The CBK shall suspend transacting with any noncompliant company.

Seventh Item

The CBK shall have the right to suspend transacting with exchange companies or limit the transacting size for as long as deemed necessary.

Eighth Item

These instructions shall come into force as of issuance date.

Issued on: 5 Jumada Al-Akhirah 1410 H
2 January 1990

THE MANAGER

2 Sha'ban 1412 H
5 February 1992

The General Manager,

We enclose herewith a copy of the Central bank of Kuwait's instructions issued on 02/01/1990 concerning foreign currency direct transacting between the Central bank of Kuwait (CBK) and exchange companies.

The CBK would like to assert Items two and three of the said instructions, stipulating the need to ensure sufficient securities for the value of intended transactions before the purchase transaction is carried out.

Accordingly, your company should abide by the aforesaid instructions.

Best regards,

Manager of Banking Supervision
Hameed Ahmed Al-Rasheed

Instructions On Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies

In accordance with the provisions of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait and organization of the Banking Business, its amending law No. 130/1977, and Ministerial Resolution issued on 19/04/1984 on subjecting exchange companies to CBKs' supervision.

In view of the significant role of the exchange companies in foreign currency trading (sale/buy), in covering clients' foreign currency requests.

The Central bank of Kuwait (CBK) has decided to, directly, sell exchange companies listed under its supervision, with US dollars in the form of mutual (sale/buy) deals in accordance with the following instructions:

First Item

Exchange companies in the context of the implementation of these Instructions are: exchange companies listed with CBK.

Exchange companies' clients are: traditional resident clients, other than banks, investment companies, exchange companies and individual exchange institutions.

Second Item

Exchange companies who wish to buy US Dollars from the CBK, in accordance with these Instructions, shall place a security with the CBK to cover its US Dollars purchase volume. The securities shall take the form of credit balances in a current account with CBK, public debt instruments issued by the Kuwaiti Government mortgaged with CBK, or in both two forms. The securities shall be existing at the time of transacting.

Third Item

The exchange company shall apply for the purchase of US Dollars at the foreign exchange room at the CBK. If the company wishes to buy an amount that exceeds its existing balance in its current account with the CBK, the company shall place additional securities in the form of public debt instruments, or place additional amounts of money in its current account with the CBK, before ten a.m. on the transaction day.

The CBK shall have the right to cancel the transaction if the securities stated in the above paragraph was not placed on the transaction scheduled day.

6- Instructions on Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies.

- b) Ensuring sufficient securities for the value of intended transactions before the purchase transaction is carried out.

Fourth Item

The exchange companies' purchase of US Dollars shall not, by all means, exceed their clients' actual needs, such as: cash sale, check transfer orders and cash transfers, by cable or telex. clients' foreign currency requests for the purpose of such as: margin accounts, shall not be deemed as clients' actual needs of foreign currency.

The Central Bank of Kuwait shall not sell foreign currency to exchange companies intended for private trading.

Fifth Item

Exchange companies cooperating with the CBK in accordance with these instructions, shall sell any excess of main foreign currency to the CBK.

Sixth Item

The CBK shall inform exchange companies of further instructions if needed, based on the CBK's monitoring of exchange companies implementation of these instructions. The CBK shall suspend transacting with any noncompliant company.

Seventh Item

The CBK shall have the right to suspend transacting with exchange companies or limit the transacting size for as long as deemed necessary.

Eighth Item

These instructions shall come into force as of issuance date.

Issued on: 5 Jumada Al-Akhirah 1410 H
2 January 1990

THE MANAGER

17 Sha'ban 1412 H
20 February 1992

The General Manager,

With reference to our letter dated 05/02/1992, concerning direct transacting on foreign currency between the Central bank of Kuwait (CBK) and the exchange companies,

We inform you that the CBK, in appreciation of exchange companies' role in the Kuwaiti market, and in order to enable the companies supervised by the CBK, of fulfilling such role, has decided the following:

- 1- The exchange company who wish to buy foreign currency from the CBK, should place sufficient securities equal to the intended transaction value, no later than value date.
- 2- Considering companies' need to buy foreign currency, in order to fulfill their clients' needs, companies may transact with the CBK, based on the following maturity dates:
 - Value Today
 - Value Tomorrow
 - Value Spot.

The abovementioned shall be effective as of 29/02/1992.

Best regards,

Manager of Banking Supervision
Hameed Ahmed Al-Rasheed

6- Instructions On Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies.

- c) The exchange company who wish to buy foreign currency from the CBK, should place sufficient securities equal to the intended transaction value, no later than value date.

THE MANAGER

*17 Rajab 1414 H
30 December 1993*

The General Manager,

It was noticed that a number of exchange companies have not been complying with all Central bank of Kuwait's instruction issued on 02/01/1990 regarding the direct transacting system of foreign currency, particularly the Fourth Item which prohibits exchange companies from buying US Dollars, from the Central bank of Kuwait (CBK), exceeding their clients' actual needs, as defined therein.

Accordingly, in order to avoid the penalties stated in Paragraph Six of these instructions, and the penalties stated in the Ministerial Resolution on subjecting exchange companies to CBK's supervision, exchange companies shall abide by all CBK's aforesaid instructions.

With my best wishes,

Manager
Hameed Ahmed Al-Rasheed

6- Instructions On Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies.

- d) Requiring exchange companies to abide by the Central Bank of Kuwait's instructions concerning the direct transacting between the CBK and exchange companies.

THE GOVERNOR

17 Rajab 1412 H
8 March 1995

Regulations on Dealing in Foreign Currency
with Exchange Companies

1. Dealing with exchange companies shall be on a SPOT basis.
2. Payment instructions shall be sent to our correspondent abroad on the day of execution of the transaction and not on the day of conclusion of the agreement.
3. On the day of execution of the transaction, specifically at 1:30 p.m., the balances of the exchange companies' accounts shall be printed from their general ledger to ensure balance adequacy for the operations which will be carried out on that day. The accuracy of these balances is the responsibility of the banking department.
4. In case of sufficient balance, instructions should be sent to our correspondent abroad to execute the transaction on the same day.
5. In case of nonsufficient balance, the transaction shall be canceled and the Foreign Operations Department shall notify the concerned company of the decision of suspending the dealing with them, until the company states in writing the reasons behind their nonsufficient balance with the Central Bank of Kuwait, and send a letter to the Supervision Department notifying them of their nonsufficient balance and the relative necessary actions taken by them.

With my best wishes,

Salem Abdul Aziz Al-Sabah
The Governor

6- Instructions On Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies.
e) Regulations on Dealing in Foreign Currency with Exchange Companies.

THE EXECUTIVE MANAGER

6 Rabi' Al-Awwal 1416 H
3 August 1995

The General Manager,

Please note, that your company should immediately pay the full amount of all direct purchase transactions of foreign currency from the Central Bank of Kuwait (CBK) as of 15/08/1995, through one of the following alternatives:

- 1) The company shall have the needed money ready to pay against foreign currencies purchase from the CBK, on the purchase order date, either through cash payment, or through a deposit in the company's current account with the CBK. The Central bank shall make the requested foreign currency transfer transaction on the due date.
- 2) The company shall deposit in its current account with the CBK amounts exceeding the amount of the foreign currency purchase transaction in the form of public debt instruments, with an authorization for CBK to discount the purchase transaction amount from the remaining thereof on the maturity date, against the public debt instruments with CBK, in case of nonsufficient cash in company's account with CBK.
- 3) The company shall present to the CBK a credit letter issued by a local bank with an amount equal to the balance needed against the foreign currency purchase transaction. The credit letter shall be liquidated in case of nonsufficient balance in company's account with CBK.

Value of public debt instruments, or credit letter shall equal the maximum balance needed against any foreign currency purchase transaction carried out between the company and the CBK.

Best regards,

Executive Manager of Supervision Department
Hameed Ahmed Al-Rasheed

6- Instructions On Foreign Currency and Precious Metals Direct Transacting Between the Central Bank of Kuwait and Exchange Companies.

f) Instructions concerning alternatives for immediate correspondence payment of all purchasing transactions.

Circular No. (ESB/101/93)
Concerning the Arrangements for Buying and Selling GCC Currency Notes

Introduction:

With reference to the existing arrangements concerning the exchange of GCC countries' currency notes and the agreement amongst the GCC countries' monetary institutions to include the Kuwaiti Dinar to such arrangements, according to which banks and exchange companies and establishments operating in GCC countries are committed to accept and exchange all GCC currency notes (buying and selling), with a margin not exceeding 0.5% of the daily published exchange rates of such currencies.

The Central Bank of Kuwait (CBK) has initiated arrangements with the GCC countries to implement what has been agreed upon. In this course of action, an agreement has been concluded with Bahrain to implement those arrangements effective as of 1/08/1993. Accordingly, it has been decided as follows:

First: The CBK shall, on a daily basis, inform your bank/company of the purchase rate of the Bahraini Dinar against the Kuwaiti Dinar, as well as of the selling rate of the Bahraini Dinar against the Kuwaiti Dinar. The margin between the buying and selling rates shall be 1%, so that the purchase price will represent the minimum rate for dealing with the public, while the selling rate will represent the maximum dealing rate.

Second: Your bank/company is required to accept the purchase of Bahraini Dinar from the public according to the Bahraini Dinar's purchase rate against the Kuwaiti Dinar, as daily published by the CBK (as a minimum).

Third: In the event your bank/company sells the Bahraini Dinar to the public, the selling rate published by the CBK (as a maximum) should be adhered to.

Fourth: CBK is committed to purchase the balances of the Bahraini Dinar existing with your bank/company and which have not been re-sold, at the purchase rate published by the CBK on the date of its actual purchase, plus a margin of %0.25.

Fifth: These instructions shall come into force from 01/08/1993.

Issued on 27/07/1993.

Circular No. (ESB/102/93)
Concerning the Arrangements for Buying and Selling GCC Currency Notes

Introduction:

With reference to the existing arrangements concerning the exchange of GCC countries' currency notes and the agreement amongst the GCC countries' monetary institutions to include the Kuwaiti Dinar into such arrangements, according to which banks and exchange companies and establishments operating in GCC countries are committed to accept and exchange all currencies of GCC countries (buying and selling), with a margin not exceeding 0.5% of the daily published exchange rates of such currencies.

Further to our instructions (No. ESB/101/93) concerning the arrangements for buying and selling the currency notes of GCC countries, the Central Bank of Kuwait (CBK) has initiated arrangements with the Sultanate of Oman to implement what has been agreed upon, effective as of 21/09/1993. Accordingly, it has been decided as follows:

First: The CBK shall, on daily basis, inform your bank/company of the purchase rate of the Omani Riyal against the Kuwaiti Dinar, as well as of selling rate of the Omani Riyal against the Kuwaiti Dinar, so that the purchase rate will represent the minimum rate for dealing with the public, while the selling rate will represent the maximum dealing rate.

Second: Your bank/company is required to accept the purchase of Omani Riyal from the public according to the Omani Riyal's purchase rate against the Kuwaiti Dinar, as daily published by the CBK (as a minimum).

Third: In the event your bank/company sells Omani Riyal to the public, the selling rate published by the CBK (as a maximum) should be adhered to.

Fourth: CBK is committed to purchase the balances of Omani Riyal existing with your bank/company and which have not been re-sold, at the purchase rate published by the CBK on the date of its actual purchase, plus a margin of %0.25.

Fifth: These instructions shall come into force from 21/09/1993.

Issued on 19/09/1993.

Circular No. (ESB/103/93)
Concerning the Arrangements for Buying and Selling GCC Currency Notes

With reference to the existing arrangements concerning the exchange of GCC countries' currency notes and the agreement amongst the GCC countries' monetary institutions to include the Kuwaiti Dinar into such arrangements, according to which banks and exchange companies and establishments operating in GCC countries are committed to accept and exchange all GCC currency notes (buying and selling), with a margin not exceeding 0.5% of the daily published exchange rates of such currencies.

Further to our previous instructions concerning the arrangements of buying and selling of the currency notes of GCC countries, the Central Bank of Kuwait (CBK) has commenced with making arrangements with United Arab Emirates (UAE) to implement what has been agreed upon concerning the acceptance and exchange of the Kuwaiti Dinar in United Arab Emirates (both buying and selling) effective as of 26/09/1993. Accordingly, it has been decided as follows:

- First:** The CBK shall, on daily basis, inform your bank/company of the purchase rate of the UAE Dirham against the Kuwaiti Dinar, as well as of the selling rate of the UAE Dirham against the Kuwaiti Dinar, so that the purchase rate will represent the minimum rate for dealing with the public, while the selling rate will represent the maximum dealing rate.
- Second:** Your bank/company is required to accept the purchase of UAE Dirham from the public according to the UAE Dirham's purchase rate against the Kuwaiti Dinar, as daily published by the CBK (as a minimum).
- Third:** In the event your bank/company sells UAE Dirham to the public, the selling rate published by the CBK (as a maximum) should be adhered to.
- Fourth:** CBK is committed to purchase the balances of the UAE Dirham existing with your bank/company and which have not been re-sold, at the purchase rate published by the CBK on the date of its actual purchase, plus a margin of %0.25.
- Fifth:** These instructions shall come into force from 06/10/1993.

Issued on 05/10/1993.

Circular No. (ESB/106/94)
Concerning the Arrangements for Buying and Selling GCC Currency Notes

With reference to the existing arrangements concerning the exchange of GCC countries' currency notes and the agreement amongst the GCC countries' monetary institutions to include the Kuwaiti Dinar to such arrangements, according to which banks and exchange companies and establishments operating in GCC countries are committed to accept and exchange all GCC currency notes (buying and selling), with a margin not exceeding 0.5% of the daily published exchange rates of such currencies.

Further to our previous instructions concerning the arrangements for buying and selling GCC currency notes, the Central Bank of Kuwait (CBK) has commenced with making arrangements with the State of Qatar to implement what has been agreed upon, concerning the acceptance and exchange of the Kuwaiti Dinar (buying and selling) in the State of Qatar effective as of 01/05/1994. Accordingly, it has been decided as follows:

- First:** The CBK shall, on daily basis, inform your bank/company of the purchase rate of the Qatari Riyal against the Kuwaiti Dinar, as well as of selling rate of the Qatari Riyal against the Kuwaiti Dinar, so that the purchase rate will represent the minimum rate for dealing with the public, while the selling rate will represent the maximum dealing rate.
- Second:** Your bank/company is required to accept the purchase of Qatari Riyal from the public according to the Qatari Riyal's purchase rate against the Kuwaiti Dinar, as daily published by the CBK (as a minimum).
- Third:** In the event your bank/company sells the Qatari Riyal to the public, the selling rate published by the CBK (as a maximum) should be adhered to.
- Fourth:** CBK is committed to purchase the balances of the Qatari Riyal existing with your bank/company and which have not been resold, at the purchase rate published by the CBK on the date of its actual purchase, plus a margin of %0.25.
- Fifth:** These instructions shall come into force from 01/05/1994.

Issued on 12/04/1994.

THE MANAGER

*24 Rabi' Al-Thani 1414 H
10 October 1993*

The General Manager,

It is noticed that a number of exchange companies open their premises to the public on Fridays, without referring to the Central Bank of Kuwait (CBK) in this regard.

Please note that the CBK deems it necessary to request its approval prior to opening of any premise on Fridays.

Best regards,

**Deputy Manager
Hamad Abdulmohsen Al Marzouq**

THE EXECUTIVE MANAGER

*19 Jumada Al-Akhirah 1415 H
22 November 1994*

The General Manager,

It was noticed that, during the approval process of the 1993 financial statements of a number of exchange companies and during monitoring their 1994 quarterly financial positions submitted to the CBK, partners of some of these companies withdrew amounts from their current accounts, not attributable to the gains from the activity, resulted in decreasing the company's capital, which is employed for exchange purposes, below the minimum benchmark required by the CBK.

Therefore, partners are required to settle the above-mentioned account balances, taking in consideration that the CBK shall not approve your 1994 financial statement if these budgets show partners receivables.

Best regards,

**Executive Manager of Supervision Sector
Hameed Ahmed Al-Rasheed**

9- Instructions concerning the settlement of partners' current account balances.
a) Instructions requiring the settlement of partners' current receivables.

THE EXECUTIVE MANAGER

10 Thu Al-Qe'dah 1415 H
10 April 1995

The General Manager,

The Central bank of Kuwait (CBK), having reviewed the 1994 financial statements of some of exchange companies, has noticed that a number of these companies have listed partners' current accounts under the partners' equity⁽¹⁾ in their closing financial statements data.

In view of the fact that these balances have, in most cases, resulted from the transactions between the company and the partners, which is outside the company's activity and contradicts the purpose of these accounts, the CBK requires your company to continuously liquidate these accounts. Taking into consideration that partners' equity balance within the closing financial statement should only include receivables, which are deposited to strengthen the company's business (for example, supporting loans), or the proposed dividends. A separate clarification should be included indicating the type of these balances which should not differ from the foregoing. Furthermore, your company's compliance with this procedure will be monitored through periodic statistical data which your company should submit on a quarterly basis.

Best regards,

Acting Executive Manager-Supervision Department
Hamad Abdulmohsen Al Marzouq

(1) Circular dated 28/10/2007 under Item (9-c) of this Chapter requiring exchange companies to take into account some aspects regarding the classification of partners' equity in the financial statement.

9- Instructions concerning the settlement of partners' current account balances

- b) Instructions requiring liquidation of partners' current payables.

THE EXECUTIVE MANAGER

16 Shawwal 1428 H
28 October 2007

The General Manager,

“Circular to All Exchange Companies”

The Central bank of Kuwait (CBK), having reviewed the financial statements of exchange companies, has noticed that a number of exchange companies have been listing under partners' equities, partners current accounts that don't comply with the terms specified in CBK's instructions issued on 10/04/1995, stipulating that these balances should have financial leverage for partners' equities and company's activity.

Accordingly, following the circulars issued on that concern, we urge all exchange companies to take the following into consideration:

- 1) The partners current accounts item shall not be listed under the partners' equities item in the financial statements.
- 2) In addition to paid capital and declared reserves, the profit (loss) item carried from previous years and have been decided not to be distributed or carried, shall be listed under the partners' equities item along with the item of proposed dividends.
- 3) Funds provided by partners to be used as financial leverage of company's capital and activity, with specified maturity dates, shall be listed under a separate item under the liabilities side (not under partners' equities item). A separate clarification shall be presented indicating the type and terms of these balances. However, if such funds were provided by partners as a subordinating capital, with no specified maturity dates, such funds shall be listed under partners' equities (Funds subordinating capita item). A note should be included setting out the nature and conditions of these balances.
- 4) Taking into consideration the non-withdrawal of any of company's funds by partners, accordingly, such withdrawals or liabilities shall be limited and for short periods, and within capital requirements with consideration to stability of partners' equities, any funds withdrawal by partners, or any balances payable by partners to the company shall be shown under a separate item on the side of assets. A separate clarification shall be attached to the financial statements indicating the type and maturity dates of such balances.

9- Instructions concerning the settlement of partners' current account balances

- c) Circular requiring exchange companies to take into account some important points when classifying items under partners' equity.

These instructions shall be effective as of the date hereof accordingly⁽¹⁾.

Best regards,

Executive Manager of Supervision Sector
Ibrahim Ali Al Qadhi

(1) Circular dated 21/05/2008 listed under Item (9-d) of this Chapter clarifying notes related to the Circular dated 28/10/2007.

9- Instructions concerning the settlement of partners' current account balances

- c) Circular requiring exchange companies to take into account some important points when classifying items under partners' equity.

THE MANAGER

16 Jumada Al-Awwal 1429 H
21 May 2008

The General Manager,

“Circular to All Exchange Companies”

With reference to the Central bank of Kuwait circular issued on 28 October 2007 on the need to comply with certain terms related to the classification of partners' equities in the final financial statements of your company, and the outcome of the exchange companies' statements revised, please note the following:

- 1) Item (2) of the aforesaid circular, dated 28 October 2007, stating that the proposed dividends within partners' equities items, shall only be applicable to the closing financial statements presented by your company at the end of each year. Whereas such amounts shall be listed in the item specified in the financial position, quarterly presented by your company to CBK.
- 2) Funds with no specified maturity dates, provided by partners, shall be listed as a separate item under (partners' equities), as shown in the modified financial position statement attached.
- 3) Funds with maturity dates, provided as subordinating capital, shall be listed under “partners credit balances” on the liabilities side.

Provision of modified statements of your company shall be as per the attached schedule, as of December 2007.

Best regards.

Manager of Off-Site Supervision Department
Dr. Mohammad Y. Al-Hashel

9- Instructions concerning the settlement of partners' current account balances

- d) Circular clarifying notes related to the Circular dated 28/10/2007.

**Supervision Sector / Off-Site Supervision Department
Banking and Financial Statistics Section**

Financial Position as of/.../...

(Table 1/A)

Company:

Amount in KD

KD 1	Provision 2	KD 3	Assets	KD 4	KD 5	Liabilities and Partners' Equity
			Cash and cash assets Claims on local banks Current and sight deposits Time deposits Loans Claims on foreign banks Current and sight deposits Time deposits Loans Claims on other financial institutions Local Foreign Financial and real estate investments Local Foreign Receivables Foreign currencies receivables Precious metal receivables Partners' receivables Other receivables Precious metals Fixed assets Buildings Machinery, equipment and furniture Incorporation fees and key money Incorporation fees/charges Key money Other assets Interest receivable Expenditures paid in advance Refundable deposits Closed accounts Other			Claims of local banks Current Loans Claims of foreign banks Current Loans Claims of other financial institutions Local Foreign Payables Customers cash deposits Companies payable balances Other payables Other liabilities Interest receivable (Provision for expenses) Provision for leaves and remuneration Income received in advance Proposed dividends Profits (losses) for the period Total liabilities Partners' equity Paid up capital Reserves Retained earnings (loss) Funds subordinating capital
			Total Assets			Total Liabilities and Partners' Equity
			Contra Accounts			Contra Accounts

New amendments
applicable starting
from March 2010



15/02/2010

9- Instructions concerning the settlement of partners' current account balances

d) Circular clarifying notes related to the Circular dated 28/10/2007.

THE EXECUTIVE MANAGER

*29 Ramadhan 1415 H
28 February 1995*

The General Manager,

The Central Bank of Kuwait (CBK) has recently noticed the increasing number of correspondences sent by foreign entities to local banks, financial institutions, companies and individuals offering commercial, banking or financial offers against profitable commissions and profits. These correspondences are vague and violate banking and financial norms, and are clearly suspicion of being scam and fraud.

In case any of these correspondences is discovered, the CBK requests your company to undertake the following procedures:

1. Send a copy of the correspondence to the CBK.
2. In case this foreign entity has a partner inside/outside the State of Kuwait, your company - in accordance with the available and verified information– should report that information to the Public Prosecution.

Best regards,

**Executive Manager of Supervision Sector
Hameed Ahmed Al-Rasheed**

THE EXECUTIVE MANAGER

8 Shawwal 1415 H
9 March 1995

The General Manager,

We enclose herewith the Central Bank of Kuwait's circular concerning monitoring the size of financial transactions between your company and international financial institutions facing a severe financial crisis.

Best regards,

Acting Executive Manager
Essa Mohammed Al-Attal

11-Monitoring the size of financial transactions between exchange companies and international financial institutions facing severe financial crisis.

- a) Circular concerning monitoring the size of financial transactions between exchange companies and international financial institutions facing severe financial crisis.

THE GOVERNOR

*30 Ramadhan 1415 H
1 March 1995*

The General Manager,

“Circular to All Exchange Companies”

Some international financial institutions face from time to time crisis which may adversely impact their financial positions, thus entailing side effects that may result from placing such institutions under liquidation or any other actions that would prevent them from the settlement of their full obligations toward the parties they deal with.

Due to the interlinkage of relations between the local financial institutions and international financial markets, and in line with the Central Bank of Kuwait (CBK) role in monitoring any possible resulting effects on the local banking and financial institutions, and given the ensuing need for coordination with other regulatory authorities, your company is required to inform the CBK of any financial transactions between your company and any international institution facing severe crisis, immediately upon occurrence of such cases, in addition to submitting a monthly report in this regard⁽¹⁾.

Best regards,

**Salem Abdul Aziz Al-Sabah
The Governor**

(1) Circular dated 23/10/2001 under Item (11-E) of this Chapter requiring to discontinue submitting such data.

11-Monitoring the size of financial transactions between exchange companies and international financial institutions facing severe financial crisis.

- b) Informing CBK of any financial transactions between exchange companies and any international financial institutions facing severe financial crisis.

THE MANAGER

7 Sha'ban 1422 H
23 October 2001

The General Manager,

“Circular to All Exchange Companies”

With reference to the Central Bank of Kuwait (CBK) circular dated 01/03/1995 concerning monitoring the size of financial transactions between your company and international financial institutions facing a severe financial crisis.

Therefore, your company should discontinue submitting such data as of the date hereof accordingly.

Best regards,

Manager of Supervision Department
Ibrahim Ali AL-Qadhi

11-Monitoring the size of financial transactions between exchange companies and international financial institutions facing severe financial crisis.

- c) Circular requiring exchange companies to discontinue submitting data on the size of financial transactions between exchange companies and international financial institutions facing a severe financial crisis.

THE EXECUTIVE MANAGER

*16 Thu Al-Qe'dah 1415 H
16 April 1995*

The General Manager,

In the context of local banking and financial units' activities, the rapid and growing developments in various monetary and financial market transactions related to local banking and financial units' activities, positively / negatively, reflected on the general performance of such units, it is essential to maintain an internal written regulatory system, approved by the higher management of the said units, where measurements of such system shall be efficient and clear enough to enable the said units avert any negative outcome caused by any of these unit officers, or resulting from not keeping pace with the developments affecting the banking and financial market activities.

Hence, maintaining a highly efficient internal regulatory system shall accomplish the following goals:

- 1) Banking and financial institutions' assets are protected from any losses resulting from the misuse or disposal of such assets. Disposal of assets shall be in accordance with the resolutions and recommendations of the Board of Directors of such institution.
- 2) Risks involving the banking and financial transactions shall be, adequately, estimated and monitored.
- 3) Transactions listed in the banking and financial institutions' records, shall be carried out in line with the measurements adopted by such institutions, in accordance with the international accounting rules and other organizational criteria decided by the Central bank of Kuwait (CBK).

In this context, and in order for CBK to ensure having efficient internal regulatory system at the banking and financial system units, your company should carry out the following:

- 1) Your company shall instruct the external auditor to evaluate your company's internal regulatory system in line with adopted review rules. A copy of the auditor's report on that concern shall be presented to the CBK.

12- The importance of maintaining an internal written regulatory system, approved by the higher management of the company.

- 2) The external auditor at your company shall prepare a separate report, which shall include the audited closing financial statements, on your company's internal regulatory system, showing the efficiency of such system in light of your company's transactions activity during the audited year, effective fiscal year 1995.

Best regards.

**Acting Executive Manager of Supervision Sector
Hameed Ahmed Al-Rasheed**

12- The importance of maintaining an internal written regulatory system, approved by the higher management of the company.

THE MANAGER

20 Thu Al-Hijjah 1416 H
8 May 1996

The General Manager,

“Circular to All Exchange Companies”

It was noticed that some exchange companies have included the amounts of checks and transfers, which were uncollected by their customers and of more than five-year-old (from date of issue), in their revenues and expenditures statement, as the said period is considered appropriate for the aging of these amounts.

We inform you that the limitations of these commercial papers in banks does not waive customer's right to claim unless the known limitations period, as stipulated in Article No. 438 of the Civil Law, is expired.

Therefore, exchange companies should not include the said amounts in the company's revenues, except after a period of fifteen years.

Best regards,

Manager of Supervision Department
Hamad Abdulmohsen Al Marzouq

13-Instructions requiring exchange companies to exclude the amounts of checks and transfers, which were uncollected by their customers and of more than five-year-old (from date of issue), from their revenues and expenditures statement, unless after a period of fifteen years.

THE MANAGER

19 Muharram 1417 H
6 June 1996

The General Manager,

“Circular to All Exchange Companies”

The Central Bank of Kuwait (CBK) has assigned the Institute of Banking Studies (IBS) to conduct a study on labor force in exchange companies operating in the State of Kuwait.

Therefore, and due to the importance of this study, exchange companies are required to provide the IBS with the required data in this regard, when directly requested by the Institute.

Best regards,

Acting Executive Manager
Essa Mohammed Al-Attal

14-Exchange companies are required to provide the Institute of Banking Studies with the required data regarding their labor force when directly requested by the Institute.

THE GOVERNOR

*28 Rabi' Al-Awwal 1417 H
13 August 1996*

The Chairman of the Board of Directors,

“Circular to All Exchange Companies”

We refer to the provisions of Article (78) Paragraph (C) of the Law No. (32) of the year 1968 concerning Currency, the Central Bank of Kuwait and the Organization of the Banking Business, which provides that “the Central Bank of Kuwait shall prepare a comprehensive report on the results of each inspection it conducts on any bank or institution. The report shall include the recommended actions that the Central Bank of Kuwait (CBK) deems appropriate for rectifying such irregular situations as may have been revealed during the inspection. The Governor of the CBK shall send a copy of the report to the Chairman of the Board of Directors or Manager of the bank or financial institution on which the inspection was carried out.....”.

The CBK emphasizes the requirement that the letters addressed by the Governor to your company concerning the final results of the inspection, should be presented to all your main partners following the receipt of such letters.⁽¹⁾

With my best wishes,

**Salem Abdul Aziz Al-Sabah
The Governor**

(1) Circular dated 06/03/2012 under Item (16) of this Chapter to emphasize the content of this circular and to require exchange companies to provide the Central Bank of Kuwait with evidence indicating presenting the said letters to all main partners/Board of Directors.

15- Instructions requiring exchange companies to present the letters sent by the Governor, concerning the final results of the inspection, to all company's main partners, following the receipt of such letters.

THE EXECUTIVE MANAGER

*13 Rabi' Al-Thani 1433 H
6 March 2012*

The General Manager,

“Circular to All Exchange Companies”

With reference to the Central Bank of Kuwait's circular dated 13/08/1996 requiring exchange companies to present the letters sent by the Governor, concerning the final results of the inspection, to all company's main partners, following the receipt of such letters.

The Central Bank of Kuwait emphasizes the content of the aforementioned circular, provided that your company is required to provide us with evidence indicating presenting the said letters to all main partners/Board of Directors within 45 days from the date of the dispatch of these letters.

Best regards,

**Executive Manager of Supervision Sector
Yousef Jassim Al Obaid**

16- Circular emphasizing the content of circular dated 13/08/1996 which requires exchange companies to present the letters sent by the Central Bank of Kuwait, concerning the final results of the inspection, to all company's main partners, following the receipt of such letters and providing CBK with evidence to that effect.

THE MANAGER

*5 Rabi' Al-Akhir 1417 H
20 August 1996*

The General Manager,

“Circular to All Exchange Companies”

You are requested to provide the Central Bank of Kuwait (CBK) with a copy of all agreements concluded with foreign banks/financial institutions.

Therefore, when concluding such agreements, you are requested to comply with the provisions of Article (3) of the Ministerial Resolution concerning subjecting exchange companies to the supervision of CBK.

Best regards,

**The Manager of Supervision Sector
Hamad Abdulmohsen Al Marzouq**

THE GOVERNOR

*14 Rabi' Al-Akhir 1418 H
18 August 1997*

The General Manager,

**“Circular No. (2/ES/44/97)
to All Exchange Companies Concerning
the Project Management Plan for the Year 2000”**

In light of the need to achieve compatibility of the current information systems with the required modifications, which may result from changing the date in company's computer sets for the year 2000. We attached the general framework of the project management plan for the year 2000 along with the instructions to follow in order to implement an effective management plan for achieving compatibility with the year 2000 requirements.

Whereas it is essential to solve computer issues in entities supervised by the Central Bank of Kuwait (CBK), we emphasize that a quarterly report indicating the accomplishments made towards your company's readiness for compatibility with the year 2000 requirements, shall be submitted to CBK, effective as of 30/09/1997.

With my best wishes,

**Salem Abdul Aziz Al-Sabah
The Governor**

18-Project Management Plan for the Year 2000.

- a) Circular No. (2/ES/44/97) to exchange companies to provide the Central Bank of Kuwait with a quarterly report indicating the accomplishments made towards your company's information systems readiness.

(Project Management Process of the year 2000)

(Problem Definition):

In the context of upgrading computer sets and accessories, operating systems and programing software, in order to deal with the date issue in the year 2000, and with regard to this significant issue which is related to authorities supervised by the Central Bank of Kuwait (CBK), a clarification framework has been set out to guide such authorities to develop an efficient outline compatible with the year 2000 challenges.

The framework includes three basic steps, as follows:

First: Project Management Phases:

• Awareness Phase:

At this phase, the concerned authority shall define the information system issues, allocate necessary resources to make the system modifications needed, form a team work for the year 2000 program, and develop a general strategy including internally designed systems, as well as service offices for the imported systems.

• Assessment Phase:

At this phase the issue size shall be assessed with details on the necessary efforts needed to handle the requirements of the year 2000. Computer sets, systems, computer networks, ATM machines, and other information systems which shall be affected by the date-changing problem the year 2000, shall be defined. The assessment phase shall include computer sets with electronic chips technique such as security, elevators and vaults systems.

• Renovation Phase:

This phase shall include upgrading and advancing computer technologies and systems, based on the outcomes of the assessment phase.

• Validation Phase:

This is the most crucial and serious phase of the project management of the year 2000, where advanced computer sets and systems shall be examined to ensure its compatibility with the year 2000 requirements.

18-Project Management Plan for the Year 2000.

- a) Circular No. (2/ES/44/97) to exchange companies to provide the Central Bank of Kuwait with a quarterly report indicating the accomplishments made towards your company's information systems readiness.

• **Implementation Phase:**

This is the last phase where systems compatible with the year 2000 requirements shall be implemented.

Second: External Risks to Consider:

Your company shall immediately start addressing the following issues included in the outlining process project: -

- **Vendors:**

Your company shall immediately start assessment of its vendors plans, in case of outsourcing, regarding their obligations towards the year 2000 requirements. Company shall also ensure including the contracts signed with vendors the future modification options for compatibility with the year 2000. Your company shall also seek other mediators to upgrade their systems for the year 2000, in case main vendors unavailability. Noting that assessment of upgrading and modifications made to the systems, shall be in coordination with the main vendors thereof.

- **Data Exchange:**

Your company shall assess the size of the problem related to some types of data (affected by the date-changing) exchanged with other financial institutions, clients and supervising authority. This issue requires extra time and efforts to assess the effect of the proposed solutions for the year 2000 problem on such type of data. Accordingly, the action plan shall include a trial period, whenever necessary, regarding data exchange with the supervising authority, clients and global financial institutions.

Third: Other Operating Issues

The CBK sees that the following issues should be taken into consideration in planning for the year 2000:

- Cost of changing or upgrading current and future information systems shall be taken into consideration when choosing between both options.
- Efficient technical labor shall be essential to ensure easy and rapid upgrading process of systems for compatibility with the year 2000 requirements.

18-Project Management Plan for the Year 2000.

- a) Circular No. (2/ES/44/97) to exchange companies to provide the Central Bank of Kuwait with a quarterly report indicating the accomplishments made towards your company's information systems readiness.

- In case of intended acquisition or mergence process with other institution, the extent of the concerned institution advanced efforts in qualifying its systems for the year 2000, shall be taken into consideration, among other things.
- In case of remote or overseas functions at external units, the concerned financial institution shall ensure availability of information systems at such units qualified for the year 2000 requirements, since such units are connected with the main systems of the concerned institution.
- Your company shall make modifications or ensure that the contracts signed with vendors of information systems shall include vendors' liability to repair any defects may result from systems' incompatibility with the year 2000.
- Plans for the year 2000 shall address the leap year for the year 2000, particularly, 29/02/2000.

18-Project Management Plan for the Year 2000.

- a) Circular No. (2/ES/44/97) to exchange companies to provide the Central Bank of Kuwait with a quarterly report indicating the accomplishments made towards your company's information systems readiness.

THE GOVERNOR

28 Safar 1418 H

23 June 1998

The Chairman of the Board of Directors,

**“Circular to All Exchange Companies Concerning the
Measures to be Considered in Achieving
Compatibility with the Year 2000 Requirements on the Right Time”**

In the context of the Central bank of Kuwait’s pursuance of the measures taken by the financial institutions in achieving compatibility with the year 2000 requirements, and with reference to CBK’s circular No. (2/ES/44/97), dated 18/08/1997, and the attached general framework of the project management plan for the year 2000, proposed by CBK.

Whereas it is essential for the financial institutions to take the measures leading to compatibility with the year 2000 requirements on the right time, the CBK deems it necessary to act as follows:

- 1) Your company shall take necessary adequate actions to make all necessary modifications of main and sub applications of computer systems, no later than the end of 1998. Your company shall also finalize full testing steps of such applications by end of the first quarter of 1999.
- 2) The external auditor of your company shall be assigned to check company’s readiness for compatibility with the year 2000 requirements, and shall submit to CBK, by end of current year, a report including his opinion on company’s readiness. The report on the closing financial accounts for the year 1998 shall also include his opinion on company’s readiness for the year 2000.

On this regard, we emphasize that a quarterly report indicating the accomplishments made towards your company’s readiness for compatibility with the year 2000 requirements, shall be submitted to CBK.

Best regards.

**Acting Governor
Nabeel Ahmed Al-Mannae**

18-Project Management Plan for the Year 2000.

- b) Measures to be considered in achieving compatibility with the year 2000 requirements on the right time, on the emphasis of Circular No. (2/ES/44/97) dated 18/08/1997.

THE DEPUTY GOVERNOR

*11 Rabi' Al-Thani 1419 H
4 August 1998*

The General Manager,

**“Circular No. (2/ES/59/98)
to All Exchange Companies”**

Further to the circulars of the Central Bank of Kuwait (CBK) concerning the follow-up of the procedures taken by the banking and financial institutions to prepare their current information systems to accommodate the required upcoming amendments, which will result from changing the date in their computer sets for the year 2000.

Attached is a copy of the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements. The CBK believes that this guidance forms a good basis on which your company should rely on to assess the readiness of the systems to meet the requirements of year 2000.

Best regards,

**Deputy Governor
Nabeel Ahmed Al-Mannae**

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations

JOINT YEAR 2000 COUNCIL

**Basel Committee on Banking Supervision
Committee on Payment and Settlement Systems
International Association of Insurance Supervisors
International Organization of Securities Commissions**

**Bank for International Settlements
June 1998**

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations

Introduction

Following work carried out by its individual parent committees, the Joint Year 2000 Council has decided to take additional steps to promote Year 2000 preparedness globally. It is therefore issuing this “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations”, which is adapted from guidance developed by one of its parent committees, the Basel committee on Banking Supervision. It is hoped that this guidance will move supervisors from a level of general awareness of the problem to a specific, concrete program of action for overseeing Year 2000 readiness, both on an individual financial institution basis and on a system-wide basis. In addition, the parent committees of the Council encourage supervisors to determine that financial institutions have established realistic target dates for completing specific steps of the conversion process.

This document provides a structure for conducting an independent assessment of financial institution readiness related to the year 2000⁽¹⁾. Supervisory agencies in different countries typically utilize different methods for overseeing the activities of the institutions for which they have responsibility (for example, bank supervisors utilize examiners, external auditors, or a combination of the two, to provide independent verification of information provided by banks). The Council believes that the guidance contained in this document can be beneficial to examiners, auditors and others. The Council also believes that supervisors should consider conducting prudential interviews with senior management of financial institutions on this critical topic and that guidance could form the foundation of such discussions. Finally, supervisors should consider sharing this guidance with their financial institutions in order to help them in their own internal evaluations of action plans.

With regard to the specific issue of Year 2000, no supervisor has the ability to make certain that problems will not occur due to the millennium change. Each financial institution bears responsibility for its own systems. However, supervisors should be able to assess whether the steps being taken by a financial institution to achieve Year 2000 readiness appear to be reasonable and prudent. Supervisors need to follow up quickly with those institutions that are viewed to be inadequately addressing the Year 2000 problem.

(1) The guidance focuses on problems that similarly apply to all financial institutions. It does not deal with the specific problems of the different financial sectors. For instance, the insurance companies have to be aware of and to obviate the high risk of large insurance and reinsurance claims arising as a result of Year 2000.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

As outlined in such documents as the September 1997 paper issued by the Basel Committee: “The Year 2000: A Challenge for Financial Institutions and Bank Supervisors”, the wide range of Year 2000-related risks necessitates that management implement a targeted, multifaceted action plan to protect both the organization and its shareholders. Addressing the Year 2000 issue consists of several important elements. These elements fall into seven broad categories: (1) developing a strategic approach (2) creating organizational awareness; (3) assessing actions and developing detailed plans; (4) renovating systems, applications and equipment; (5) validating the renovation through testing; (6) implementing tested, compliant systems; and (7) contingency planning. The following guidance is organized under these seven headings. The paper also contains a final section on miscellaneous issues as well as a list of resource documents issued by different supervisory authorities in various countries. These documents are referenced, as appropriate, in footnotes.

Supervisors should be particularly concerned about those financial institutions that have not completed the first three phases listed above by mid-1998 and are not well into the renovation phase. Supervisors should consider taking specific action against such institutions in order to underscore the serious impact such lack of preparations would have.

It is imperative that those financial institutions, which may have given limited attention to this matter to date, begin immediately to take the necessary step to achieve Year 2000 readiness. It is essential that senior management recognize that the Year 2000 is more than a technical issue and that become involved in ensuring timely resolution of the situation. For many financial institutions that have not yet begun the Year 2000 renovation process, it may be impossible for the necessary changes to internal systems and external interfaces to be fully completed. Institutions that have not progressed sufficiently should focus on identifying and renovating those systems that are deemed to be “mission critical”⁽¹⁾. All financial Institutions, regardless of their level of preparedness, need to prioritize work yet to be done and initiate a contingency planning process.

(1) “Mission critical” systems are those that a financial institution needs to have operational in order to conduct its most basic functions (for example, determining customer balances). Each institution needs to determine which systems are mission critical and establish priorities for deployment of scarce resources.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

Methodology

The following procedures are designed to assist supervisors, auditors and others in determining whether an Institution has an effective plan for identifying, renovating, testing and implementing solutions for Year 2000 processing. Several of the recommended questions will also allow the examiner or auditor to assess whether the Institutions has effectively coordinated Year 2000 processing capabilities with its customers, service providers, markets, vendors and payment systems counterparties. It should be noted that the list of questions provided in each chapter is not meant to be exhaustive. In many instances, more detailed guidance can be found in the referenced documents.

Questions posed by supervisors or auditors will not necessarily result in a clear affirmative or negative answer. Rather, the questions are designed to provide an analytical framework for arriving at a current assessment of the adequacy of a financial institution's Year 2000 preparations. It is critical that verification of sufficient information to validate answers for each question be undertaken to the extent necessary. For example, supervisors should have access to copies of the action plan, other relevant internal documents and various elements of proof, where available ⁽¹⁾ (such as the dates of meetings, the names of officers responsible for various elements of the program, etc.). Negative answers should be followed up thoroughly with senior management.

An overall assessment will provide supervisors with a means of prioritizing follow up activities, including supervisory actions, and allocating resources appropriately. In determining the appropriate follow up activities, supervisors should consider the extent to which the institution's management is aggressively pursuing effective corrective actions and the likelihood that mission-critical systems will be ready on time. In recognition of the time-sensitive nature of correcting deficiencies, supervisory actions should be largely determined by the co-operation, responsiveness and capability of the institution's management and the amount of time remaining prior to the millennium change.

(1) For the local operations of foreign organizations, it may be appropriate to substitute oral explanations of plans rather than requiring translations of such plans.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

1. Developing a Strategic Approach

The importance of timely preparations for the millennium change requires establishing the Year 2000 project as a strategic objective of the financial institution with a high degree of involvement by senior management. There should be an assignment of clear lines of responsibility and accountability. A Year 2000 team should be established to oversee the program on an institution-wide basis. The strategic objective should be clearly communicated to all staff. In addition, the institution's board of directors and senior management should be involved in assessing the resource implications of the Year 2000 and kept informed through regular reports on the status of Year 2000 preparations.

Examiners/auditors should ask:

1. Has the financial institution clearly established the Year 2000 as a strategic objective?
2. Has the financial institution developed and documented a Year 2000 strategy? If so, has it been clearly communicated to all staff?
3. Has a senior-level executive been assigned explicit oversight responsibility for the financial institution's Year 2000 preparation efforts?
4. Has the financial institution established a Year 2000 group (including the appropriate officers from various departments) to coordinate the preparations for the organization as a whole, including at foreign operations? How is this group organized who are its members?
5. Has the financial institution clearly assigned the responsibilities for dealing with various aspects (technical, operational, business line) of the year 2000 conversion? How has this been accomplished?
6. Are individuals with Year 2000 responsibilities able to devote sufficient time to the project to assure success?
7. Are status reports provided on a regular basis to the board of directors, senior management and all relevant personnel?

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

II. Creating Organizational Awareness

An adequate response to the millennium problem requires the entire financial institution to be aware of the strategic importance of the problem. There must be an awareness of how the millennium change affects the various activities of the institution, both domestically and overseas. The financial institution must also realize that its activities depend on numerous other parties (for example, customers, correspondents, service providers) that must also be ready for the millennium change. The financial institution must be aware of the various supervisory requirements for Year 2000 preparedness established in each of the jurisdictions in which it operates. In order to make all personnel aware of the Year 2000 problem management should ensure that this issue is visible within the organization and share its plans with all staff.

Examiners/auditors should ask:

1. Does the financial institution's board of directors and senior management have a clear understanding of the Year 2000 problem?
2. Has the board and senior management taken steps to assure the risks associated with the Year 2000, including risks in operation centers, domestic and foreign branches, subsidiaries and counterparties, are being fully addressed?
3. Does the financial institution take into consideration Year 2000 issues when addressing possible changes to organizational structure to key business decisions such as mergers and acquisitions? Is the financial institution aware of how competing priorities, including changes mandated by external regulatory or business environments, may affect its ability to achieve Year 2000 readiness?
4. Has the financial institution acknowledged that, where it holds customer assets, it has an obligation to ensure that those assets are properly protected from Year 2000 risk?
5. Has the financial institution acknowledged the various major interdependencies with external parties, including customers, other financial institution, central banks, utilities, exchanges, clearing-houses, service providers and vendors?
6. Is the financial institution aware of all supervisory benchmarks, target dates, and other sound practices identified for Year 2000 compliance in each jurisdiction in which it operates?

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- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

7. Does the financial institution regularly communicate with staff regarding the Year 2000 problem in order to make all personnel aware of the issue? Have personnel been given the opportunity to identify specific Year 2000 problems?
8. Are the financial institution's internal and external auditors involved in the Year 2000 process?

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- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

III. Assessing Action and Developing Detailed Plans

A critical step for all financial institutions in addressing the year 2000 problem is the assessment of all areas and activities of the institution affected by the millennium change and the development of corresponding detailed plans to address conversion of the affected systems.

During the assessment phase, the financial institution must determine the size and complexity of the problem and detail the magnitude of the effort necessary to address the year 2000 issue. An adequate assessment will include consideration of relationships with third parties, including vendors whose products and services the institution uses, other financial institutions, clearing - houses and customers with whom it exchanges data electronically, and customers whose standing may be diminished by significant disruptions associated with the millennium change. The assessment must also go beyond information systems and include environmental systems that are dependent on embedded microchips (for example, security systems, vaults, telephones, faxes, heating / cooling systems and elevators). The financial institution must make an inventory of all hardware and software in order to identify exposures and prioritize systems. This prioritization will occur after a risk analysis of the various systems has been conducted.

The action plan will differ according to the size and complexity of the financial institution. The institution must identify the required resources (personnel, budget and external resources) needed to implement the action plan. The action plan should outline which systems will be replaced, upgraded or otherwise modified and what the conversion process will entail. The action plan should also include a concrete timetable for meeting each element of conversion⁽¹⁾. This timetable will establish target dates against which to measure slippage in the implementation of the action plan. This timetable should include ample time for testing.

Examiners/auditors should ask:

1. Has the financial institution identified all systems, applications and equipment that could be affected by the millennium change? Has the institution identified critical business functions, taking into account the impact of failure due to Year 2000 problems?
2. Has this assessment included in-house systems, systems linked externally and all other systems with embedded computer chips?

(1). Examples of completion targets are provided in several of the documents issued by national authorities contained in the bibliography at the end of this document. Targets will often vary by the size and complexity of the year 2000 issue as well as from country to country.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

3. Have target dates has been established for each element of the conversion process? What are the target dates established? Do they allow sufficient time for adequate testing and timely implementation?
4. Has the financial institution established strong monitoring of risk controls throughout the process to address the Year 2000 problem? Has the institution developed an appropriately detailed action plan to address the necessary conversions and potential resulting risks? Has the institution maintained sound internal controls over the software change process?
5. Has the financial institution addressed Year 2000 business risks with key markets, service providers, vendors and suppliers? For major dependencies, have trigger dates been established for obtaining alternative suppliers?
6. Has the financial institution discussed the Year 2000 problem with their major customers and counterparties and assessed whether customers will be able to meet their financial and informational obligations to the institution? Has year 2000 readiness been incorporated into the list of criteria for assessing the suitability of customers and counterparties?
7. Does the action plan establish realistic time lines with key benchmarks (for example testing, contacting customers regarding their readiness), including specific target dates, to be achieved in 1998, 1999 and thereafter⁽¹⁾ ?
8. Has the financial institution established a sufficient budget for Year 2000 conversion, taking into account the institution's unique characteristics? In addition, has the institution established a system for tracking utilized resources (expenses, internal and external personnel, technological equipment)? Has the institution included an assessment of its ability to secure the necessary resources to implement the action plan? Is the institution continuously evaluating its budget as events develop and hidden costs are discovered?

(1).In order to achieve Year 2000 readiness within existing time constraints, financial institutions may find it necessary to use approaches that are less than optimal from a longer-run business operation perspective. In such instances, post-century date change plans will address replacing temporary fixes with more permanent ones.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

IV. Renovating Systems, Applications and Equipment

In this phase, which is primarily of a technical nature, the necessary adjustments to the affected systems are made. Execution should be done systematically with priorities set in accordance with risk. There should be a system of “change management”⁽¹⁾ in place. For financial institutions relying on outside servicers or third-party software providers, ongoing discussions to monitor vendor progress and adjust to internal schedules are critical.

It is important that, as problems arise in executing the action plan, they are promptly addressed and reported to the appropriate levels of management. The financial institution should continue to give highest priority to those activities that are considered mission-critical.

Examiners/auditors should ask:

1. Is the action plan (with clear target dates) well under way and is progress being adequately monitored?
2. Have there been any significant changes to established target dates? Do such changes materially affect the ability of the financial institution to be ready in a timely manner?
3. Has management established a channel to maintain timely communications with the institution’s vendors and service providers to determine their progress toward implementing year 2000 solutions?
4. Does the financial institution have adequate assurances from and monitoring of the quality of process and timeliness of delivery from outside vendors and service providers (for example, in back-up servicing and the quality assurance of products)? Is the institution aware of the usefulness of user groups for sharing best practices, obtaining information and applying pressure on major vendors and service providers? Is the institution utilizing such groups?
5. What are the frequency and forms of internal reporting on implementation? Are issues or problems arising from implementation being properly documented?
6. What are the nature of problems or issues that have arisen during the course of implementation (for example, resource shortages, backlogs, bottlenecks, failures) and how have these issues been addressed?
7. Does the financial institution have an adequate “change management” process in place?

(1). “Change management” is the process whereby a new version of an application is put into production under appropriate controls.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

V. Validating the Renovation through Testing

The most extensive phase in the Year 2000 action plan will be testing or validation. The objective of testing is to ensure that all hardware and software changes, including interfaces with other systems, are Year 2000 compliant. Financial institutions should test mission-critical systems first because failure of mission-critical services and products will have a significant adverse impact on an institution's operations and financial condition. The plans should include, at a minimum, the following elements: testing environment, testing methodology, testing schedules, human and financial resources, critical test dates, documentation and contingency planning.

The testing phase should focus not only on the financial institution's own systems but also on links with the systems of third parties. This means that the institution's own test plans will have to be carefully coordinated with those of service providers, counterparties and customers. As with the implementation phase, financial institutions should be in ongoing discussion with their vendors about the success of their testing efforts. It is critical that the institution not rely on statements made by suppliers that systems are Year 2000 compliant. The institution must independently verify this compliance through testing.⁽¹⁾

Examiners/auditors should ask:

1. Has the financial institution developed a testing strategy for Year 2000 modifications? Are controls in place to verify the testing process? Have business managers been actively involved in developing the test plans, and do they accept responsibility for their thoroughness?
2. Has a target date been set for completing testing for significant applications with material third parties (for example, customers, other financial institutions, payment system providers)?
3. Has the financial institution devoted sufficient time and resources to testing and error checking of all software and hardware changes?
4. Do the tests cover (a) incremental changes to hardware and software components; (b) connections with other systems; and (c) acceptance testing by internal and external users?
5. How is the financial institution monitoring testing by suppliers to determine that their systems are Year 2000 compliant?
6. Does the testing take into consideration important critical dates⁽²⁾?

(1) See FFIEC: "Guidance Concerning Testing for Year 2000 Readiness" (April 10, 1998).

(2) Examples of critical test dates include: September 9, 1999, December 31, 1999, etc. See FFIEC Interagency Statement "Guidance Concerning Testing for year 2000 Readiness" for a full list of critical test dates.

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- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

VI. Implementing Tested, Compliant Systems

Putting tested, compliant systems into production well before the end of 1999 should be an objective for every financial institution because it allows counterparties and customers to interact with the system during normal day-to-day activities. Additionally, one back in production, normal maintenance of the application using standard change-control procedures becomes possible.

In some instances, organizations may choose to implement renovated systems after rigorous testing of functionality but before completing Year 2000 testing, especially external testing. While this approach has the advantage of minimizing the length of time a particular application is “frozen” from normal maintenance and change-control procedures, it does not lessen the need for through Year 2000 testing.

Appropriate re-testing of systems in production should be addressed when other Year 2000 applications are introduced. Frequently, compliant systems become non-compliant because file formats or other components change in another application with which there is interaction.⁽¹⁾

Examiners/auditors should ask:

1. Does the financial institution have sound procedures in place to control version changes in applications? Are these procedures followed rigorously with respect to Year 2000 renovations?
2. Are renovated applications put into production as soon as practical to allow counterparties and customers to identify and resolve any difficulties they may have in interacting with the application? Is early implementation a priority for systems for which all counterparties and customers are not included as part of the Year 2000 test plan?
3. After a renovated application has been put into production, are there adequate plans in place to re-test the application when other applications with which it interacts are changed?
4. Does the financial institution clearly understand how settlement failures will be addressed (interest, penalties, etc.) for all of its significant business lines? Is the institution working with counterparties to make certain that market conventions are understood?

(1). See FFIEC: “Guidance Concerning Testing for Year 2000 Readiness” (April 10, 1998).

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

5. Has the financial institution considered the impact on customers of various contingencies and how negative consequences can be mitigated? Are contingency measures being examined to ensure that customers' assets can be identified and preserved and that instructions can be accepted and executed? Are mechanisms in place for a fair and expeditious resolution of disputes with customers that may arise?
6. Are operations in remote locations of foreign countries adequately covered in contingency plans?
7. Does the financial institution's contingency plan deal with infrastructure issues such as telecommunications, electrical power and water?
8. Does the financial institution's contingency plan identify adequate levels of responsibility and readily available resources (internal and external to deal with any problems encountered with the millennium date change?
9. Does the financial institution have an estimate of how long it can operate under various contingency plans?
10. Are there any significant mission critical applications that will not meet the deadline for Year 2000 compliance? Is management addressing these problems?
11. Has the financial institution developed contingency plans related to its general functioning?

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

VII. Contingency Planning

Despite all efforts to ensure that the financial institution is ready for the millennium change, it should be recognized that unforeseen problems may arise. Consequently, financial institutions must have contingency plans in place to address these problems as quickly and effectively as possible. The need to develop contingency plans to assure business continuity is an integral part of the Year 2000 program. Some elements of contingency plans, such as the identification of alternatives for external dependencies and specific dates for making decisions on whether to change vendors, should be done as part of the assessment phase as inventories are developed.

Other elements such as specific plans for business resumption can be done more effectively when the likelihood of particular events occurring is better understood. Because this understanding is developed most effectively as testing begins, especially external testing, efficient use of resources suggests that contingency planning in this area will be a priority during the testing process. In particular, it might be necessary to develop contingency plans to ensure that customers' assets are protected and that their instructions can be affected after the 1st January 2000.

Some contingency plans can be developed only in cooperation with counterparties, customers, and the public sector. In particular, areas of systemic concern need to have coordinated planning efforts because developing sound approaches will require knowing what approaches others are using.

Finally, financial institutions should also develop contingency plans related to the general functioning of the institution. This would include, inter alia, anticipating expected losses caused by the Year 2000, planning for counterparties being unable to perform, anticipating above average use of credit lines, and planning limitations on business activities that are highly dependent on technology (for example, trading activities).⁽¹⁾

Examiners/auditors should ask:

1. Does the financial institution have contingency plans to deal with slippage in the Year 2000 renovation, validation or implementation phases?
2. Does the financial institution have a contingency planning process in place to ensure that operations can continue if some systems do not function properly as of 1st January 2000? Does this process take into account both the risks associated with a particular activity and the likelihood of particular events occurring?

(1). See FFIEC: "Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness" (May 13, 1998).

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

3. Has the financial institution reviewed contingency plans and market-wide risk controls with counterparties, correspondents, clearing-houses, markets, payment systems, central banks, and supervisors? Do the contingency plans of the institution deal with potential liquidity, market credit, and legal risk issues?
4. Does the financial institution clearly understand how settlement failures will be addressed (interest, penalties, etc.) for all of its significant business lines? Is the institution working with counterparties to make certain that market conventions are understood?
5. Has the financial institution considered the impact on customers of various contingencies and how negative consequences can be mitigated? Are contingency measures being examined to ensure that customers' assets can be identified and preserved and that institutions can be accepted and executed? Are mechanisms in place for a fair and expeditious resolution of disputes with customers that may arise?
6. Are operations in remote location or foreign countries adequately covered in contingency plans?
7. Does the financial institution's contingency plan deal with infrastructure issues such as telecommunications, electrical power and water?
8. Does the financial institution's contingency plan identify adequate levels of responsibility and reliability and readily available resources (internal and external) to deal with any problems encountered with the millennium date change?
9. Does the financial institution have an estimate of how long it can operate under various contingency plans?
10. Are there any significant mission critical applications that will not meet the deadline for Year 2000 compliance? Is management addressing these problems?
11. Has the financial institution developed contingency plans related to its general functioning?

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

VIII. Miscellaneous Issues

1. Legal issues

Legal issues may arise from the lack of specificity in contract terms dealing with Year 2000 issues. Consequently, financial institutions should involve their in-house and/or outside counsel in the preparation, review and implementation of the institution's year 2000 action plan. Contracts, indemnification provisions, and officer and director insurance policies should be reviewed and amended, as appropriate. Current and future purchases of hardware/software technology should require certification that it is Year 2000 compliant. If contract changes or modifications are refused, then the institutions should consider replacing the service or product.

The following list provides general information regarding legal issues and is not intended to provide legal advice regarding specific transactions or matters.

Examiners/auditors should ask:

- 1) Is senior management diligently overseeing the Year 2000 conversion process in order to avoid potential liability for failure to comply with legal responsibilities to the financial institution? What Directors' and Officers' insurance coverage exists?
- 2) Has the financial institution consulted legal counsel as to the appropriate and proper documentation regarding its Year 2000 efforts? How will internal documentation being generated now affect the institution's potential future litigation position? What steps is the institution taking to avoid, as well as prepare for, litigation that arises from the Year 2000?
- 3) Has the financial institution reviewed insurance policies to ascertain if they cover business losses and liability as a result of the Year 2000?
- 4) Has the financial institution reviewed the license agreement and long-term maintenance agreements relating to all third-party licensed software? Has this review been done in conjunction with a legal audit in order to preserve the institution's legal rights against software vendors?
- 5) What are the financial institution's rights and duties as a systems user relative to maintenance contractors and software suppliers?
- 6) What are the financial institution's rights and duties as a systems provider? Has the institution provided appropriate documentation to other entities for which they provide services? Is the financial institution taking the necessary steps to avoid litigation arising from computer services they provide?

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

- 7) Has the financial institution revised its contracts or included in new contracts provisions ensuring Year 2000 compliance with external service providers software developers and suppliers?
- 8) Does the financial institution understand the regulatory consequences of remediation failures in key areas of business operations?

2. Merger/acquisition issues

The extent of Year 2000 conversion efforts will bear directly on corporate merger and acquisition strategies since they will compete for project managers and technical resources. Merger and acquisition strategies should therefore include an assessment of the Year 2000 issue, to the extent possible. This should not only include an analysis of the state of readiness of the organization to be acquired but also what counterparty problems will, in effect, be “inherited” from that organization.

Examiners/auditors should ask:

- 1) Has the financial institution taken Year 2000 into account when considering mergers, acquisitions, or business expansions?
- 2) Has the financial institution included in such considerations dealing with new customers and counterparties?
- 3) What due diligence and other measures is the financial institution taking in merger and acquisition transactions to protect against inheriting Year 2000 problems and compounding those of the financial institution?

3. Issues related to remote locations

Remote or overseas operations need to devote attention to Year 2000 issues. In particular, management information systems for businesses that run interactively with or independently from the head office must be included in the financial institution’s system inventory and plans.

Examiners/auditors should ask:

- 1) How is the financial institution ensuring the Year 2000 readiness of operations conducted at remote locations, both domestically and overseas?
- 2) What kind of reporting is required from these locations by the head office?
- 3) How is the head office supporting these remote locations and providing information that is needed by host country supervisors?

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements.

4. Disclosure and customer awareness

As the millennium draws closer, it is important for a financial institution to communicate with its customers and counterparties regarding the institution's state of preparedness. This could include a statement in the annual shareholders' report as well as additional printed material that can be made readily available to customers upon request.

In addition, all line personnel with regular direct contact with customers should be provided with current information so that they may accurately answer questions posed by customers. ⁽¹⁾

Examiners/auditors should ask:

- 1) Has an information officer and other personnel been assigned the specific duty of preparing information for customers on the financial institution's Year 2000 efforts? Are these personnel available to answer the questions of individual customers related to Year 2000 issues?
- 2) What efforts is the financial institution making to communicate to its customers on its Year 2000 conversion program?
- 3) Are line personnel adequately informed about the status of the financial institution's Year 2000 efforts in order to answer questions posed by customers? Do they know to whom more detailed or complicated questions should be referred?

(1) See FFIEC: "Guidance on Year 2000 customer Awareness Programs" (May 13, 1998).

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

IX. Supervisory Assessment and Follow Up

A critical step that should be taken by supervisors following an independent review of a financial institution's Year 2000 action plan is an overall assessment of the institution's level of preparedness. This includes a determination of whether the institution is doing all it can to ensure that it is ready and whether any serious disruptions to the institution's ongoing activities are likely to take place. This step involves summarizing the strengths and weaknesses of the institution's Year 2000 plan and determining how well the plan is being implemented.

The supervisors should discuss their conclusions with the senior management and board of directors of the financial institution. They should make recommendations on any additional actions necessary to ensure the institution's Year 2000 readiness.

Supervisors should be prepared to apply proactive supervisory pressure on those institutions that appear to be falling behind in their conversion efforts. Once supervisors identify an institution that is going to have significant problems, the supervisors need to work closely with the institution to remedy the situation, to the extent possible, and to develop contingency plans to deal with the consequences of not being year 2000 compliant. The appropriate supervisory response will vary depending on the level of severity of the deficiency. For those financial institutions that supervisors determine are in unsatisfactory condition because of their lack of Year 2000 preparations, formal enforcement actions should be considered.

18-Project Management Plan for the Year 2000.

- c) Circular No. (2/ES/59/98) concerning the "Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations" issued by the Joint Year 2000 Council of the Bank of International Settlements.

THE DEPUTY GOVERNOR

*6 Ramadhan 1419 H
24 December 1998*

The Chairman of the Board of Directors,

**“Circular No. (2/ES/66/1998)
to All Exchange Companies”**

In light of the Circulars issued by the Central Bank of Kuwait (CBK) regarding achieving compatibility with the year 2000 requirements, specifically Circular dated 23/06/1998 concerning taking the necessary adequate actions to make all necessary modifications of main and sub applications of computer systems, no later than the end of 1998, and finalizing the full testing steps of such applications by end of the first quarter of 1999.

And with reference to the Circular dated 04/08/1998 and the attached copy of the “Supervisory Guidance on the Independent Assessment of Financial Institution Year 2000 Preparations” issued by the Joint Year 2000 Council of the Bank of International Settlements, stressing the need for contingency plans to face any operational failure related to Year 2000 issue.

Testing is consistently identified as the cornerstone of a successful year 2000 program. Only through a sound testing program can institutions be assured that their Year 2000 preparations have been thorough. Thus, your company should assure the following:

- 1) Good preparation for testing phase, taking into account to finalize the full testing steps by end of the first quarter of 1999 and provide the CBK with the testing results.
- 2) Setting contingency plans to face the Year 2000 issue.

Therefore, we attached the following:

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

- 2) The Pilot General Framework of the Contingency Plan for the Year 2000, which your company has to set out by the end of the second quarter of 1999 and submit it to the CBK.

With my best wishes,

**The Deputy Governor
Dr. Nabeel Ahmed Al-Mannae**

Testing for Year 2000 Readiness

JOINT YEAR 2000 COUNCIL

**Basel Committee on Banking Supervision
Committee on Payment and Settlement Systems
International Association of Insurance Supervisors
International Organization of Securities Commissions**

**Bank for International Settlements
September 1998**

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

Testing for Year 2000 Readiness

Testing is consistently identified as the cornerstone of a successful year 2000 program. Many sources indicate that resources required for testing typically make up more than half of total project costs. Only through a sound testing program can financial institutions be assured that their Year 2000 preparations have been thorough and that significant problems will not develop either internally or with key business partners. Many basic principles for successful Year 2000 testing will apply to all institutions. However, important differences in testing strategies will exist from organization to organization and market to market depending upon business priorities, complexity of operation, reliance on third-party service providers and vendors, and available resources.

Testing strategies for an individual institution or market is ultimately a business decision - what are the business risks faced if an application does not work, and what resources are appropriate to apply to reduce these risks to an acceptable level. For organizations starting late in their Year 2000 preparations. Sufficient time and resources to complete optimal testing may not be available. Business decisions and hard choices will have to be made on what is tested and how it is tested. Testing strategies need to be realistic and feasible and to make business sense for the organization and for the market. Regulators and participants need to adopt strategies that are pragmatic and achievable lest resources be used in suboptimal ways.

This paper identifies the goals of Year 2000 testing, the elements that can make up a successful testing program, and the key factors that need to be considered by financial institutions in developing their own testing strategies.

Goals of Testing

The ultimate goal of the testing phase in Year 2000 programs is to ensure the operational integrity of systems and interfaces after remediation is complete. Testing as early as possible also identifies problems and maximizes the time to fix them. Internal testing assures that applications and the software and hardware environment in which they run perform correctly and interact properly. Thorough internal testing is critical for every application and system that is essential for a business to function.

External testing focuses on the ability to conduct business normally with service providers, counterparties and customers. It provides an opportunity to focus on possible problems caused by systems and business partners that interface with an institution for which information on Year 2000 progress may be limited.

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

For example, through external systems are able to observe which participants are not testing and where may be unexpected or larger than expected problems. This knowledge permits appropriate contingency plans to be developed and implemented. Establishing testing milestones has the added advantage of bringing discipline to the market to ensure that prudent regulatory or other targets are being addressed appropriately. Where regulators and operators of exchanges and clearing and settlement systems see testing targets being missed, the denial of access to specific services or even regulatory action may be considered.

Testing Elements

While every financial institution and market is different and testing needs to be adapted to address these differences, certain basic testing concepts should be borne in mind when devising testing plans. If tests are conducted in a hardware and software environment where all of the components are not Year 2000 compliant, tests should be repeated when components change. Some of the key testing concepts follow.

Internal tests are tests over which the testing institution has full control and in which external parties (customers, counterparties, and financial infrastructure operators) are not directly involved. Well-designed and thorough internal tests are the most important part of a successful strategy.

- **Baseline tests** are performed before any changes are made to a computer program or application. The baseline test helps a financial institution compare performance of the system after changes are made to it in order to benchmark not only results but also operational efficiency.
- **Unit tests** are performed on one application to conform whether remediation efforts yield accurate results for that application. They do not test how well the application will perform when it interacts with other applications.
- **Integrated tests** are performed on multiple application or systems simultaneously. Integrated tests confirm whether computer programs function properly as they interact with other programs. Integrated tests should be repeated when the operating environment changes.⁽¹⁾

(1) Where integrated tests have been successfully completed and the operating environment changes, it may be possible to avoid repeating unit testing if an integrated retest is successful. However, if problems are identified, unit tests may be necessary to identify the source of the problem.

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- **Future date tests** simulate processing of renovated programs and applications for future critical dates to ensure that those dates will cause program or system problems. Specific dates to be tested will vary depending on the application. For applications that will be running at the century date change or across multiple time zones, testing while the date rolls will be necessary. For all applications, testing for the first business day in 2000 is essential. In addition, there are a number of other special dates such as leap year rollover in 2000 that may warrant testing.⁽¹⁾
- **User acceptance tests** are performed with internal users and validate whether the remediations have been done correctly and applications still function as expected. Internal user acceptance may often be part of integrated and future date tests.
- **Tests with monitoring and affirmation** are used by some institutions essential to the infrastructure of financial market for the participants that are also deemed to be part of the infrastructure. In this instance, not only is the participant's testing monitored, but also the participant is asked to have a responsible official certify that the test was indeed part of an overall business test.
- **Proxy tests** are tests conducted by a third party as an alternative to testing by an institution itself. Proxy tests are often conducted by user groups as an alternative to each member testing separately. Because every processing environment and the procedures in place for its operation will have unique elements, reliance on proxy testing is an imperfect substitute for an institution or user group actually conducting the test itself. However, proxy testing may be appropriate when it is not practical for every user of a service to conduct point-to-point or more complex tests with every other user of the service. Proxy testing is also helpful in setting priorities. For example, if one or more institutions have successfully tested a product, other institutions using that product might consider testing it a later date in order to focus on higher priorities. Also, for organizations with limited resources or insufficient time to complete testing, proxy testing may be the only alternative. Proxy tests should not be considered as an adequate substitute for a well designed test program and should generally be discouraged when more complete testing is feasible. Proxy tests should not be used by providers or clearing or payment services upon which many other institutions depend and for which no acceptable alternative exists.⁽²⁾

(1) A list of key dates that have been identified as being potentially problematic is provided in the Annex. It is unlikely that all of the dates listed in the Annex will need to be tested, but business manager should evaluate the risks associated with the particular dates in developing appropriate testing strategies.

(2) While a service provider of a critical infrastructure application should avoid relying on proxy testing for all components of the application, users of the service that rely on standard access tools may find that proxy tests of these tools are acceptable.

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- **Gross-border industry tests** are designed to allow more realistic testing of financial systems connecting different countries.⁽¹⁾ Gross-border tests are effectively industry-wide tests in which major payments systems and/or exchanges and clearing houses operate in a synchronized, future dated environment in two or more countries in order to simulate normal business days. In many instances, multiple time zones will be involved requiring special attention to ensure that not only calendars but also clocks are set properly. Efforts to organise such tests are only recently getting underway.

This listing of the various types of Year 2000 tests is approximately the order that many organizations will consider conducting the various tests. However, the ordering and the relative importance of each type of test will vary from application to application and from one organization to another. Therefore, each organization needs to determine its testing strategy for itself including what tests are necessary and the order in which tests should be conducted.

Factors to Consider in Developing a Test Strategy

Developing effective test strategies for Year 2000 requires institutions to balance a number of business objectives and risks and recognize resource and time constraints that they may face. Additionally, external elements are to be taken into account. They include third parties support for business operations, Year 2000 readiness of customers and counterparties, and their likely impact on normal business operations. Understanding test plans for external bodies is essential in order to develop test strategies that allow appropriate coordinated external testing.

- **How complex are business processes?** Organizations that have essential business activities that require real-time, interactive processing with counterparties and customers generally should have testing programs involving end-to-end testing and, in many instances, some type of industry-wide testing, if such testing is feasible. For other applications, which do not involve real-time and interactive processing, organizations may provide counterparties or customers with instructions and information and wait for the other party to execute batch-type processing at periodic intervals. In these instances, it may be possible to rely more heavily on more simple point-to-point tests as long as the ability to retrieve return responses in a timely manner is also tested.

Recognizing what type of test is necessary for meaningful testing of business activities and designing test strategies accordingly is essential for effective resource utilization.

(1) Financial institutions that deal in multiple currencies or in assets from multiple jurisdictions may also be engaged in bilateral cross-border testing with counterparties in multiple jurisdictions. This concept is separate from cross-border industry tests, which are industry-wide.

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• **Do meaningful alternatives exist?** For some business functions like clearance and settlement, no meaningful alternative exists to the use of the external system. For example, the inability to interact properly with an exchange, clearing agency, or payment system may not allow transactions to be conducted without undue delays and serious financial consequences. For these external systems for which no acceptable alternative exists because of the transactions volumes or other factors, testing at the most rigorous level is essential. In these instances, the only contingency plan may be to test, and retest again. The “no alternative” service provider that serves as a conduit for financial transactions bears a special burden to see that participants are sufficiently prepared as to avoid system disruptions.⁽¹⁾ Typically, such organizations will rely on monitoring or monitoring-with-affirmation as a means to assure that systemic problems do not develop with the century date change.

In other instances, where an alternative service provider may be readily available, the need for rigorous testing may be somewhat reduced. In these cases, however, it is important to test thoroughly the proposed alternative to make sure that contingency plans that permit processing along the alternative route have been thoroughly validated for volumes as well as functionality.

Distinguishing between what must be tested and what should be tested and allocating testing resources accordingly will become an increasingly critical decision as time becomes shorter.

• **How structured should external testing be?** Regulators, trade associations and individual service providers often establish targets for certain types of tests or even specific schedules for mandatory testing. Such tests may also have detailed scripts for participants to follow. In other cases, service providers may offer test environments and leave it largely up to the participant, counterparty, or client to design their own testing plans.

Those establishing target dates or schedules for coordinated tests or developing test scripts should take care to make certain that the targets and plans are realistic for the market. Unduly aggressive targets that cannot be met by significant numbers of participants without their reallocating significant test resources should be avoided. Also, very complex test scripts that require substantial resources to develop and execute could result in institutions adjusting priorities to the detriment of overall business and broader financial market risk.

(1) Participants in payment or clearance and settlement systems are unlikely to be able to test with every other participant. Operators of such systems will need to design test strategies in ways to assure that participants can reasonably assume that they can conduct transactions with the entire participant community if they have participated in appropriate tests.

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Annex

Key Year 2000 Test Dates

The dates for which an institution will want to test will depend upon the application, the market, the perceived business risk associated with a particular date, and the available resources. The following list includes many of the Year 2000 related dates that organizations have identified as being important for testing in at least some applications. Other dates may be important for specific products or markets. Many of these dates may be appropriate for internal tests but unnecessary for external tests. Others may not be tested at all because the business risk does not warrant it or because higher priorities and limited resources do not permit such tests. In some instances, institutions will want to test the “rollover” into or out of particular dates.

Date	Reason
April 9, 1999	9999 on the Julian calendar. ⁽¹⁾ In many computer programs 9999 denotes “end of input”
September 9, 1999	9999 on the Gregorian calendar. In many computer programs 9999 denotes “end of input”
December 30, 1999	Last business day in 1999 for many markets.
December 31, 1999	Last day in 1999 year.
January 1, 2000	Beginning of Year 2000
January 3, 2000	First business day in 2000 for many markets.
January 4, 2000	First business day in 2000 for many markets.
January 10, 2000	First business day to require 7-digit date field (10/01/2000)
January 31, 2000	End of first month of 2000
February 29, 2000	Leap year day. ⁽²⁾
March 31, 2000	End of first quarter of 2000
October 10, 2000	First date to require an 8-digit date field (10/10/2000)
December 31, 2000	End of Year 2000
January 1, 2001	Beginning of Year 2001.
December 31, 2001	Check that year has 365 days.

⁽¹⁾ Although the Gregorian calendar is used throughout much of the world, some computer programs are based on the Julian Calendar.

⁽²⁾ The Gregorian calendar does not have leap years that end in xx00 except when xx00 is evenly divisible by 400. Thus, 2000 is the

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**Attachment to the Testimony
of Governor Edward W. Kelley, Jr.
Before the Committee on Banking and Financial Services,
U.S. House of Representatives
September 17, 1998**

**The Federal Reserve System and the Year 2000 Status Report
and Summary of Activities**

The Year 2000 computer problem is commonly known as the “century date change” or “Y2K” problem. The problem has arisen because many business application programs written over the past thirty years use only two-digit date fields to specify the year, e.g. “97” to represent “1997”. On January 1, 2000, unless business applications, operating systems software, hardware, and embedded technologies, found for example in building control systems, are corrected, many computers with date-sensitive programs will recognize the year to be 1900 rather than 2000. Because dates are used in dollar-value transactions, calculations, and records maintained by the Federal Reserve and the financial services industry, the problem affects virtually every business area and application.

The Federal Reserve System, consisting of the Board of Governors and twelve Reserve Banks, established a Year 2000 project office in 1995 and designated the program as the Century Date Change (CDC) project. The Federal Reserve’s project addresses CDC readiness for all information technology in the Federal Reserve System. Our greatest focus, however, has been on our mission-critical systems, those that support the delivery of financial services, the regulation of depository institutions, and the conduct of monetary policy. While the Federal Reserve’s primary focus is on its own readiness, a large part of our project is devoted to communicating with customers and our business partners, such as vendors and utilities. The Federal Reserve’s CDC program employs three main efforts: compliance, communication, and administration.

- The compliance effort includes identifying problem areas, correcting production. In addition, the project provides an internal clearinghouse for CDC information on the building-related systems, embedded in, for example, elevators, air-conditioning systems, vaults. Individual Reserve Bank offices have implemented their own programs ensure that software, hardware, and physical facilities will be ready long before the year 2000. Readiness includes the development of CDC contingency and business resumption plans.

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- The communication effort focuses on CDC awareness in the financial services community, customer notification of the compliance status of Federal Reserve products, such as FedLine, any necessary file or message format changes that may be required, and the information our customers need in order to test their systems with us. External communication includes interaction with other agencies, such as the U.S. Treasury.
- The administration effort consists of coordinating and tracking project activities so that all areas of the project are operating to plans.

A member of the Board of Governors is directing the Federal Reserve's Year 2000 efforts. A team of senior Federal Reserve managers provides overall direction and coordination of project implementation with Federal Reserve Product offices, business areas, operations and information technology functions. A CDC Council, including selected members and staff of the Board of Governors, the Reserve Banks and the central business product offices, has been established to ensure communication and coordination of project implementation. The Board of Governor's Public Affairs Office has been working with the Reserve Banks' public information staffs to provide information and address of the public.

The Federal Reserve's program to manage the risks posed by the Year 2000 was evaluated by OMB in conjunction with their review of the plans and status of independent agencies. In the May 15, 1998, report, "Progress on Year 2000 Conversions," OMB described the Federal Reserve as having made "excellent progress," on all phases" and having conducted "excellent outreach".

The following table summarizes the status as of June 1998 of systems being repaired.

	Total # of Mission-Critical*	Number Compliant	Number to be Replaced	Number to be Repaired	Number to be Retired
Federal Reserve	105	99	6**	0	0

* The Federal Reserve tracks the progress of businesses or entities as System-level "components." Generally, there are two types of components: (1) applications shared for centralized, and (2) organizational units - specifically the Reserve banks, the Board, and Federal Reserve Automation Services (FRAS).

** These systems are on schedule to be replaced by March 1999.

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Status of Data Exchanges

One hundred and twenty-four incoming and outgoing data exchanges within eight mission-critical systems have been identified. Data exchanges between Federal Reserve applications and external organizations (depository institutions and government agencies) occur primarily through standard message formats and computer interface protocols. These standard message format and protocol specifications are developed, maintained, and controlled by the Federal Reserve. All organizations have been contacted and agreements have been reached on the data formats.

Testing

The Federal Reserve's testing activities for mission-critical components have been successful and are on schedule. With the exception of a few systems that will be replaced by March 1999, testing and implementation of mission-critical applications will be complete by year-end 1998.

The Federal Reserve has prepared special central environments for testing high-risk dates, such as the rollover to the Year 2000 and leap year processing. Testing is conducted through a combination of future-dating systems to verify the readiness of our information technology infrastructure, and testing critical future date processing within our applications and in the interfaces to other institutions. Network communications components are also being tested and certified in special test lab environments. We have implemented test local-area networks to verify the CDC readiness of vendor-provided products and internal applications that operate in net-work based computing environments.

Testing with external customers began on June 29, 1998, will continue throughout 1999. Depository institutions may test the century rollover (12/31/1999 through 01/03/2000) and leap year (02/28/2000 through 03/01/2000) periods with individual applications Monday through Friday, 8:00 a.m. to 8:00 p.m. ET and 8:00 a.m. to 5:00 p.m. ET on Saturday. The Federal Reserve will offer six "shared testing day" weekends in 1998 during which depository institutions may test Year 2000 dates with multiple applications. As part of this effort, the Federal Reserve is coordinating with the Clearing House of Interbank Payments Systems (CHIPS) and the Society for Worldwide Interbank Financial telecommunication (SWIFT) to provide a common test day for customers of Fedwire and these two systems.

Federal Reserve applications that are renovated to remedy Year 2000 problems undergo unit and integration testing by the information technology staffs, as well as acceptance testing by the business users. At the completion of the user acceptance testing process, the business owner reviews the renovation process and the unit, integration, and acceptance test results to validate the application as CDC compliant.

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Applications and systems, as well as environmental software and interfaces that are modified following CDC certification will be retested to ensure that they remain CDC compliant.

Local Reserve Bank internal audit departments perform reviews of test processes. Moreover, Board of Governors staff, with the assistance of an outside consultant, is providing external oversight of testing activities. In the first half of 1998, Board of Governors staff conducted focused reviews of the progress toward CDC compliance of over sixty-five Federal Reserve applications. The review teams found no significant areas of concern and identified numerous best practices. Both the Reserve Bank audit departments and the Board of Governors staff provide independent verification of application readiness and reporting.

Costs

In 1997, the Federal Reserve's expenditures that related to Year 2000 renovation and testing of our applications and systems were \$23.7 million. We estimate that these expenditures will increase to \$37.1 million in 1998, totaling \$60.8 million.

Contingency Planning

The Federal Reserve's CDC contingency planning is well underway and builds on existing contingency plans. Alternate readiness plans for mission-critical components that had not completed code renovation for Year 2000 compliance were submitted to the CDC project office on January 31, 1998. Business resumption assessments were completed on June 30, 1998, and contingency plans are scheduled for completion by November 30, 1998.

The Federal Reserve is also identifying external supplier and business partner failures that would pose potential systemic risk or might cause widespread disruption to the payment system applications or the support infrastructure. We are currently focusing on contingency planning for Year 2000-related disruptions, such as those which could affect telecommunications providers, large banks, utility companies and difficulties abroad that affect U.S. markets or institutions. The Federal Reserve is working closely with the Securities Industry Association (SIA) and the New York Clearing House (NYCH), which operates the CHIPS large payments system, on the issue of domestic and international contingency planning.

Cash availability and processing is an issue the Federal Reserve has considered in the contingency planning process. The Federal Reserve has regularly met the public's heightened demand for U.S. currency in peak seasons or in extraordinary situations, such as natural disasters. The fiscal year 1999 currency printing order was recently submitted to the Department of the Treasury's Bureau of Engraving and Printing, and the order was increased due to Year 2000 considerations.

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With this order, we will increase the amount of currency either in circulation or in Federal Reserve vaults substantially over current levels by late 1999. This increase in the level of currency should be ample to meet the public's demand for extra cash during the period surrounding the century rollover. This is a precautionary step - we believe it is prudent to print more currency than we think will be required than to risk not printing enough. While the Federal Reserve does not anticipate any extraordinary demand for cash, it is important that the public have complete confidence that sufficient supplies of currency will be available. In effect, the Federal Reserve is accelerating the timing of currency printing by planning for a possible short-lived increased demand for cash and will be able to reduce future print orders to lower-than-normal levels.

If the public's demand for currency increases, other measures can be introduced to further increase cash levels. First, the recent currency order with the Bureau of Printing and Engraving is for fiscal year 1999, so that there will be time to print additional note in the last 3 months of 1999. Second, the print order can be changed to increase production of higher denomination notes. Third, an increase of staff in Reserve Bank cash operation functions would improve the turnaround time required to process cash deposits and move currency back into circulation. Finally, as a last resort, the destruction of old or worn currency can be slowed.

Despite their best efforts, some depository institutions may experience operating difficulties, either as a result of their own computer problems or those of their customers, counterparties, or other. The Federal Reserve plans to be prepared to provide institutions with information on the balances in their accounts throughout the day.

Federal Reserve Oversight of the Banking Industry

During the twelve months ending June 30, 1998, the Federal Reserve completed the Year 2000 review of all state member banks and selected other U.S. offices of foreign banks, bank holding companies, and other organizations. In all, 1,618 institutions were evaluated: 1,552 (96%) were rated "satisfactory," 58 (4%) were rated needs "improvement" and eight were rated "unsatisfactory." No state of area of the country has a disproportionate number of organizations rated less than satisfactory. Of the 58 institutions rated "needs improvement," nine had assets in excess of \$1 billion. Of the eight institutions rated "unsatisfactory", only one had assets in excess of \$1 billion. During the second quarter 1998, more than sixty institutions that had previously been rated less than satisfactory were reviewed again and upgraded to satisfactory after implementing corrective actions.

The Federal Reserve issued approximately 130 deficiency notification letters in the 1997-1998 period to organizations rated less than satisfactory in their Year 2000 progress and planning. These letters required corrective action plans,

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monthly monitoring of progress, and restrictions on expansionary activities. The Federal Reserve considers an applicant's Year 2000 rating and project management, as well as those of the target organization when evaluating the merits of merger and acquisition proposals.

Phase II of the Year 2000 Supervision Program, extending from July 1, 1998, through March 31, 1999, includes a second round of Year 2000 supervisory reviews of all state member banks and selected other organizations, including U. S. branches and agencies of foreign banks, bank holding companies, service providers, and software vendors. The program will focus on evaluation of progress on Year 2000 testing and contingency planning as well as on compliance with guidance statements issued to date.

Examiner resources involved in Year 2000 efforts have increased steadily over the last twelve months and at present more than 225 examiners support Year 2000 supervisory activities. All year 2000 examination findings and ratings assigned by the banking agencies are strictly confidential and are not made available to the public in accordance with long-established statutory prohibitions on disclosure of confidential examinations information.

Service Providers

During the twelve months ending June 30, 1998, the Federal Reserve participated in the interagency review of many national and regional service providers and software vendors. All of these reviews focused on the organizations' program management to prepare for the Year 2000 and to provide reliable products and services to their financial institution customers. However, these reviews are not a "certification" or "warranty" of the Year 2000 readiness of the service providers or software vendors or of particular product or services. Banks are obligated to test the products and services on which they rely to ensure they are Year 2000 ready in the bank's own operating environment. As of June 30, 1998, all of the organizations reviewed were rated satisfactory. One software vendor had previously been rated "needs improvement," but was upgraded to "satisfactory" based on information made available at a subsequent review. Although the organizations were rated satisfactory, in many cases recommendations were made to enhance their efforts to provide customers with better and more frequent information on their planning and progress toward achieving Year 2000 readiness.

Additional Activities

To foster a better understanding of the importance of information sharing, the Federal Reserve and Federal Communications Commission are addressing risks posed by the Year 2000 to the telecommunications industry. The Federal Reserve

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1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

is a member of the Telecommunications Sector Group of the President's Year 2000 Conversion Council. Federal Reserve offices also have active programs to identify the risks associated with utilities such as electrical services. In conjunction with contingency planning, offices will review plans for addressing failures of utility providers.

The Federal Reserve is assisting in the government's coordination of the Year 2000 effort within the financial industry by participating in the Financial Institutions Sector Group of the President's Council on Year 2000 Conversion. A Senior Board official who chairs this Sector Group has been working with representatives of government financial organizations, including the federal banking agencies, the Department of the Treasury, the Securities and Exchange Commission, and other agencies responsible for various financial intermediaries, to assess the Year 2000 readiness of the financial industry and formulate interagency strategies for addressing Year 2000 issues. The systemic risk posed by a disruption in operations at any one of the nation's largest banking organizations, securities exchanges, clearing houses, or payment systems has been of concern to the Federal Reserve and the other banking agencies since the initial development of the FFIEC Year 2000 supervision program. Concerted efforts by the Federal Reserve, together with the SIA and NYCH, have been initiated to work closely with selected exchanges, clearing houses, and payment systems on matters pertaining to Year 2000 readiness. To assess the risk to the FDIC insurance fund and to plan for the orderly resolution of possible bank failures resulting from Year 2000-related disruptions, Federal Reserve staff has been working closely with the FDIC and other agencies to address the issues associated with closing a troubled bank before the century change.

With respect to testing between banks and other parties, cooperative efforts by many of the largest banks in the New York market, together with the SIA and the NYCH, have included commencement of transaction testing between counterparties. The testing involved the electronic trading of securities and the flow of information between and through all parties to the transaction. Additional testing of a comparable nature is scheduled for the future as well.

The level of international cooperation concerning Year 2000 has increased significantly over the past several months, primarily due to the efforts of the public sector Joint Year 2000 Council (Joint Council) and the private-sector Global 2000 Coordinating Group (G-2000). The Joint Council is pursuing a range of initiatives to help ensure a high level of attention is given to the Year 2000 challenge within the global financial supervisory community. Initiatives include sharing information on regulatory and supervisory strategies and approaches,

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

discussion of possible contingency measures, and serving as a point-of-contract for national and international private-sector initiatives. Federal Reserve Governor Roger Ferguson chairs the Joint Council. A series of regional meeting with supervisory authorities will be conducted this year during the fourth quarter.

The Basel Committee on Banking Supervision continues to be active on Year 2000 issues, both within the Joint Council and separately as part of its normal Supervisory activities. Year 2000 is featured prominently on the agenda for the upcoming International Conference of Bank Supervisors to be held in Australia in October. The Federal Reserve has had extensive communications with foreign bank supervisors regarding the Year 2000 readiness of banks operating in the U. S. and in their respective countries.

Federal Reserve Board has forwarded to Congress a proposal for an amendment to the Federal Reserve Act to make certain types of discount window loans to banks eligible as collateral to back Federal Reserve notes. The amendment is regarded as a technical correction to the Act to ensure that collateral requirements for currency are maintained in the event of certain types of discount window lending. This amendment was passed unanimously by the House Banking Committee and is attached to the President's Working Group's bill, the Financial Contract Netting Improvement Act of 1998. No other legislative proposals are expected at this time.

Additional Information

Additional information on the Federal Reserve's Year 2000 programs can be found in the Board's quarterly report to Congress, its June 30 report to the Office of Management and Budget, various guidance and letters provided to bank officials, technical bulletins provided to customers, and in testimony and speeches by Federal Reserve officials. These and other documents are available on the Federal Reserve's Year 2000 Web site at:

<http://www.federalreserve.gov/Y2K>

Regional meetings in Sydney and Frankfurt discuss challenges ahead of regulators

The Council's first two regional meetings of financial market regulators were held in October. The meeting in Sydney for the Asia-Pacific region drew senior representatives of central banks, bank supervisory agencies, securities market regulators and insurance supervisors from 20 countries and the Frankfurt meeting, for Europe, brought together participants from 32 countries. The discussions at the meeting focused on the approaches regulators have taken to encourage cooperation, information sharing and testing programs as well as strategies to be considered going forward.

A critical issue discussed at both meetings is the need for the private and public sectors to continue their efforts in elevating the Year 2000 issue to the highest management level. Given the potential far-reaching effects of the date change, it is necessary that senior policy-makers and executives become further engaged in the issue to help minimize any disturbances - within their organizations and the markets more generally. In these turbulent times the tendency to focus on day-to-day concerns and leave future problems for later must be resisted if the transition to 2000 is to go smoothly.

The need for cooperation on Year 2000 applies at many levels, internally in an organization, across firms in joint industry initiatives and across sectors in cross-industry coordination (e.g. between the financial sector and public infrastructure providers). Coordination is critical given the interdependence of financial markets and the reliance of market participants on public infrastructure providers. Cooperation in the public and private sectors is high - and unprecedented - yet further coordination of efforts is necessary, especially in the areas of information sharing, testing and contingency planning.

A key challenge facing regulators and market participants is encouraging greater disclosure and information sharing. Striking the right balance between mandatory and voluntary disclosure and achieving effective transparency in their own preparations will be very important for financial market regulators in the year ahead.

Federal Reserve Board establishes a plan to manage change to its information systems

It is important that organizations consider the effect on renovated systems of subsequent changes to policies, regulations and services. The US Federal Reserve Board's change management procedures establish guidelines to limit policy and operational changes as well as internal hardware and software changes to its systems, it will also minimize changes that its customers would have to make to applications that interface with Federal Reserve System Software. A summary of these procedures is on the Fed's Web site. (www.federalreserve.gov)

Recent noteworthy publications

The Steering Committee On Year 2000 Compliance in the Financial Services sector in Hong Kong recently published a summary report on Year 2000 External testing Activities. The report provides information on major shared financial systems, vendors and utilities of the financial sector (including an impact assessment, summary of Year 2000 testing characteristics and an inventory of Year 2000 testing activities and readiness). According to the report, most financial institutions in Hong Kong are expected to complete rectification of their systems by year end - 1998.

(www.info.gov.hk/fsb/year2000)

The Bank of England released the third issue of Financial Sector Preparations for the Year 2000 (the "Blue Book") in October. Like the previous issue, this report focuses on testing, updating the testing plans in the UK financial sector and, where possible, providing information on the outcome of tests already undertaken. Several aspects of contingency planning are also examined, including potential scenarios and possible risk mitigation strategies. The report also details various domestic and international initiatives and includes a section on dispute resolution. (www.bankofengland.co.uk)

The UK Financial Services Authority's policy statement, The FSA and the Year 2000 (October 1998), reviews the FSA's Year 2000 objectives and program, including its supervisory objectives, its oversight of "overseas firms" and the need for scenario and contingency planning. The FSA also notes in its statement that it has adopted a policy of restraint in introducing new regulatory requirements that might call for systems changes by firms. (www.fsa.gov.uk)

The British Bankers' Association's Year 2000 Contingency Planning Guide (October 1998) summarizes the unique features of Year 2000 contingency planning and provides a step-by-step guide and an "action checklist" for setting up the project. It also categorizes the various types of potential risk faced by a bank and gives examples of systemic risk, project risk, operational credit, credit and liquidity risk, legal and regulatory risk and reputational risk. (www.bba.org.uk).

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

The French Financial Industry Task Force's Livre blanc du secteur financier – le passage à l'an 2000 (featured in the prior Council Bulletin) is now available. The complete paper is in French with an abstract available in English. (www.banque.france.fr)

The Organization for Economic Co-operation and Development finalized its report, The Year 2000 problem: Impacts and Actions, in October. The report details how the Year 2000 problem is being addressed in OECD countries and identifies areas requiring further action. In an overview of the state of preparedness of member countries, the report highlights vulnerable sectors and compares studies on likely economic effects. Among its conclusions are that disclosure of government and industry assessments of readiness will help motivate action, that greater focus is needed on embedded systems and that international cooperation needs to be expanded. (www.oecd.org/puma)

Press Release

July 8, 1998

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

Year 2000 Phase II Work Program

WASHINGTON, D.C. - The Federal Financial Institutions Examination Council's Task Force on Supervision today issued an updated work program for conducting Year 2000 examinations in all federally supervised banks, saving associations and credit unions, as well as service providers and certain software vendors supporting these financial Institutions (Attachment: Year 2000 Phase II Work Program). The work program is designed for use during a second round of examinations beginning later this summer. The examination procedures are risk focused and will help the examiner to determine if the Institution has addressed the Year 2000 problems inherent in many computer software, hardware, and environmental systems.

The procedures are designed to focus primarily on the adequacy of the Institution's plans and processes for achieving Year 2000 readiness. with particular emphasis placed on the final phases of the Year 2000 project-testing and implementation- and on the Institution's contingency plans. Testing is considered the most critical phase of Year 2000 project management efforts financial Institutions, service provider and software vendors.

On-site examinations of service providers, software vendors and institutions with in-house programming will be completed by December 31, 1998 and on-site examinations of serviced and turnkey institutions will be completed by March 31, 1999. A first round of on-site reviews of financial institutions, service providers and software vendors were completed on June 30, 1998.

The objectives of the new examination procedures are to follow up on results of previous Year 2000 reviews and to determine whether institutions are following guidance issued by the FFIEC. The FFIEC has issued Year 2000 guidance on the following topics: project management, business risk; due diligence concerning service provider and software vendor readiness; impact on customers, testing; customer awareness program; and contingency planning. In addition, the Work Program is intended to assist the examiner in:

- determining whether the institution has implemented an effective plan for testing Year 2000 renovated products and implementing Year 2000-ready products into their production environment;
- assessing the adequacy of the institution's Year 2000 contingency plans;
- determining if the institution is handling Year 2000 issues in a safe and sound manner; and
- identifying whether corrective action may be necessary to assure an appropriate level of attention to Year 2000 readiness activities.

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 1) A paper on Testing for Year 2000 Readiness issued by the Joint Year 2000 Council of the Bank of International Settlements.

Pilot General Framework of the Contingency Plan for the Year 2000

The higher management of your company shall be responsible for developing contingency plans. The main goal of contingency plans shall be to assist your company's Board of Directors and the higher management in handling the year 2000 issue, mitigating the risk effects related to the failure of compatibility with the year 2000 throughout the process extended phases; assessment, renovation, validation and implementation, in addition to ensuring work continuity till after 01/01/2000.

Setting out a contingency plan shall be based on the work conditions and the surrounding environment of each financial institution. Your company's Board of Directors and higher management shall give priority to setting out, approving and executing such plan aiming at facing the emergencies resulting from the year 2000 problem and afterwards.

The required contingency plan steps shall be:

- A) Outline an organizational plan identifying work continuity strategy, through;
 - Form a teamwork assigned to outline the work continuity plan, tasks and responsibilities.
 - Identify main work activities.
 - Identify work phases and potential critical issues before/ after the year 2000. Assessment of economic feasibility of modification and renovation, whenever necessary.
- B) Assess potential business impact analysis resulting from failure of main work activities, by:
 - Risk analysis which main work activities may be subjected to, considering:
 - 1) Readiness for compatibility with the year 2000.
 - 2) Financial and marketing impact resulting from missing out any of the said activities.
 - 3) Considering the impact on the supervisory requirements.
 - Considering and documenting potential scenarios of incompatibility with the year 2000., taking into account the incompatibility risks involving interior or infrastructural causes (electricity, water, communications).
 - Determining the minimum acceptable limit of banking and financial outcomes and services which shall be offered.

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 2) Pilot General Framework of the Contingency Plan for the Year 2000, which should be set out by the end of the second quarter of 1999 and submitted to the Central Bank of Kuwait.

- C) Develop a contingency plan to determine the period of time needed to overcome inconvenient situations and embark compatibility by:
- Consider alternative options and choosing a suitable contingency strategy relative to work size.
 - Identify executive means for handling problems.
 - Develop an executive strategy to ensure needed and qualified labor. Your company shall ensure availability of employees for the date changing time at the end of the current century, as well as for other critical dates impacting transaction systems, such as the leap year on 29/02/2000.
 - Review the contingency plan and crises managing programs consistently.
- D) The contingency plan shall be documented. A separate review of the contingency plan feasibility shall be conducted by those who haven't participated to the setting out of the compatibility validation plans with the year 2000.

19- Circular requiring exchange companies to set out contingency plans to face the year 2000 issues.

- 2) Pilot General Framework of the Contingency Plan for the Year 2000, which should be set out by the end of the second quarter of 1999 and submitted to the Central Bank of Kuwait.

THE MANAGER

*8 Jumada Al-Akhirah 1416 H
28 September 1998*

The General Manager,

“Circular to All Exchange Companies”

In view of the provisions of Article (13) of the Ministerial Resolution dated 19 March 1984 subjecting exchange companies to the supervision of the Central Bank of Kuwait (CBK) and stipulating that “Pursuant to provisions of Article (71) of the Central Bank of Kuwait Law, the Central Bank of Kuwait may provide the exchange companies with instructions deemed necessary to regulate their businesses and achieve the credit and monetary policies adopted by the Central Bank of Kuwait”.

With respect of regulating the process of opening new branches for exchange companies, and the procedures and requirements needed, a copy of the “Controls and measures for opening new branches for exchange companies” is attached thereto in order to comply with.

Best regards,

**Manager of Supervision Sector
Ibrahim Ali Al Qadhi**

Controls and Measures for Opening Branches for Exchange Companies

First: The exchange company shall submit an application to the Ministry of Commerce and Industry, together with an economic feasibility study for opening the branch. The Ministry shall pass this application to the Central Bank of Kuwait (CBK).

Second: The attached feasibility study shall show the need for opening the branch applied for and cover, at least, the following points⁽¹⁾:

- Specifying the area where the company is applying to open a branch.
- The motives for opening the branch applied for.
- The need of exchange services in the area where the bank is applying to open a branch, and the considerations underlying the selection of the site for the branch applied for.
- The financial assumptions of the branch applied, based on its anticipated business size, business development, establishment cost and operating cost over an adequate period of not less than three years.

Third: The CBK sets an amount of KD 150,000 for each branch applied for. The following table shows the relationship between the capital of the exchange company and the allowed number of branches, excluding the headquarter⁽²⁾.

Company's Capital	Allowed Number of Branches
- Less than KD 150,000	Not allowed to open branches
- KD 150,000 – KD 250,000	Allowed to open 1 branch
- KD 250,000 – KD 500,000	Allowed to open 2 branches
- KD 500,000 – KD 650,000	Allowed to open 3 branches

The company should increase its capital, above the said limits, up to KD 150,000 for each new branch.

(1) This Item was amended according to the Circular issued on 07/09/2022 under Item (38) of this Chapter.

(2) The minimum capital of exchange companies was set at KD 2 million, and accordingly, the number of the company's branches will not exceed 13 branches according to the Circular issued on 09/07/2022 under Item (38) of this chapter.

Fourth: In case a company realizes losses in its last submitted closing financial statement, its request to open a new branch shall be rejected. Exceptions may be made, if the company presents a studied plan proving its ability to cover the losses if it is allowed to open a new branch⁽¹⁾.

Fifth: If a new company, whose first approved budget and closing accounts not yet issued, requested to open one or more exchange branches, it should submit its financial position statement of at least the first three months of its activity, approved by the auditor.

Sixth: The CBK has the authority to reject a company's request to open a new branch, for any reason in the sole discretion of CBK, including, but not limited to:

- If there is no need to open a new branch, and in the chosen location.
- If the company delays in submitting financial statements.
- If the company violates the applicable rules and resolutions, and the supervisory controls and instructions issued by the CBK.

Seventh: The company willing to open one or more new branches should be administratively and technically qualified to manage these branches, and should provide each new branch with the adequate administrative and technical management⁽²⁾.

Eighth: If the CBK approves the application of any company, such an approval shall be considered as initial and valid for one year⁽³⁾. The respective company shall commence with taking the necessary actions towards opening the branch before the expiry of the said period.

If the company does not manage to open the new branch within the fixed period, then the company shall have to apply to the CBK requesting the extension of the approval period, before its expiry date, giving the justifications for extending the period. In the event of non-compliance with this rule, the approval shall be automatically cancelled on its expiry date.

(1) This Item was amended according to the Circular issued on 07/09/2022 under Item (38) of this Chapter

(2) This Item was more detailed according to the Circular issued on 7/9/2022 under Item (38) of this Chapter.

(3) Validity period has been amended pursuant to circular dated 18/05/2006 mentioned under Item (21) of this chapter.

Ninth: When the company completes the preparations for opening the new branch and fixes the opening date, it will submit an application to the CBK requesting amendment of the company's data in the Companies Register to reflect the entry of the new branch in the register at least 15 days before the opening date. This application shall be submitted together with the following:

- A copy of the approved license from the Ministry of Commerce and Industry.
- Names, experiences and qualifications of key position occupants.
- Evidences proving that the company had increased its capital, if necessary, as per the requirements of Item (3) of these regulations and standards.

Tenth: Business at any new branch should not commence before registering the new branch in the Companies Register with the CBK.

THE EXECUTIVE MANAGER

*20 Rabi' Al-Thani 1427 H
18 May 2006*

The General Manager,

“Circular to All Exchange Companies”

This has reference to our letter dated 28 September 1998 concerning the instructions for opening exchange companies' branches which your company has to comply with for opening a new branch.

The Central Bank of Kuwait (CBK) has resolved to introduce an amendment to Item “Eighth” of the above mentioned instructions, relating to extending the validity of CBK initial approval of opening new exchange companies' branches, whereby such approval will be **valid for one year**.

Best regards,

**Executive Manager of Supervision Sector
Ibrahim Ali Al Qadhi**

21- Circular concerning the amendment introduced to Item “Eighth” of the instructions for opening exchange companies' branches, whereby such approval will be valid for one year.

THE GOVERNOR

*16 Safar 1420 H
31 May 1999*

The Chairman of the Board of Directors,

**“Circular No. (2/ES/70/1999)
to All Exchange Companies”**

In view of the Central Bank of Kuwait (CBK) keenness to maintain the soundness of exchange companies and curb any risk that may adversely affect their financial positions and reputation at customer and dealer levels, whether individuals or financial/banking institutions inside or outside the State of Kuwait, CBK emphasizes the following:

First: The company shall not practice any operation, which may result in gaining positions in foreign currencies, or speculation in the currency, commodity and precious metals markets, whether for the company or for others.

Second: The company's balance, with financial and banking institutions inside or outside the State of Kuwait, shall not be less than the total value of withdrawn checks and transfers.

The company is required to provide CBK with quarterly statements of such accounts, as per the form attached and approved by the company's external auditor. Such statements should be provided no later than the tenth day of the month following the reporting period⁽¹⁾.

Third: Instructions issued by CBK on 7 August 1991 concerning exchange companies' commitment to the rules and conditions shall be canceled in order to enable these companies to resume their business after the liberation.

With my best wishes,

**Salem Abdul Aziz Al-Sabah
The Governor**

(1) Circular dated 24/06/2010 listed under Item (23) of this Chapter concerning providing CBK with this statement on a monthly basis.

22- Circular No. (2/ES/70/1999) prohibiting exchange companies from practicing any operation, which may result in gaining positions in foreign currencies, or speculation in the currency, commodity and precious metals markets, whether for the company or for others, and providing the Central Bank of Kuwait with quarterly statements of the company's accounts with financial and banking institutions, as per the form attached.

Company:

Date:

Company's Accounts with correspondents (inside/outside Kuwait)

(Amount in KD)

Name of Correspondent	Currency	Opening Balance	Total Credit Movement	Total Debt Movement	Closing Balance	Notes
Total						

Company's Signature
Signature

Auditor's

22- Circular No. (2/ES/70/1999) prohibiting exchange companies from practicing any operation, which may result in gaining positions in foreign currencies, or speculation in the currency, commodity and precious metals markets, whether for the company or for others, and providing the Central Bank of Kuwait with quarterly statements of the company's accounts with financial and banking institutions, as per the form attached.

THE EXECUTIVE MANAGER

21 Rajab 1420 H
24 June 2010

The General Manager,

**“Circular No. (2/ES/261/2010)
to All Exchange Companies”**

With reference to the Circular dated 31 May 1999 requiring exchange companies to commit to a minimum account balance, with financial/banking institutions inside or outside the State of Kuwait, of not less than the total value of withdrawn checks and transfers. In addition to providing CBK with quarterly statements of such accounts as per the form attached and approved by the company's external auditor.

We inform you that it has been resolved that your company should provide us with the said statements, on **a monthly basis** and approved by the company's external auditor, within ten working days as of the end of the reported month.

Best regards,

**Executive Manager of Supervision Sector
Yousef Jassim Al Obaid**

23- Circular No. (2/ES/261/2010) requiring exchange companies to provide the Central Bank of Kuwait with a monthly statement approved by the company's external auditor on the positions of company's correspondents' accounts.

THE GOVERNOR

*25 Jumada II 1420 H
5 September 1999*

The Chairman of the Board of Directors,

**“Circular No. (2/ES/72/1999)
to All Exchange Companies”**

General Guidelines of Internal Supervision Systems Of Exchange Companies

We hereby inform you that the Central Bank of Kuwait (CBK) board of directors had in its meeting convened 29/08/1999 approved the “General Guidelines of Internal Supervision Systems of Exchange Companies”, which includes instructions regarding general requirements to be fulfilled by exchange companies’ internal supervision/control systems and auditors’ reports regarding said systems.

Please find enclosed a copy of the guidelines, and your company shall work towards compliance with its provisions regarding its internal supervision/control systems at the earliest date possible. Also note that the external auditors are required to finalize the required report in line with what had been specified in the enclosed guidelines, and it shall be submitted within the company’s closing financial statements as of closing financial statements for the year 1999.

With my best wishes,

**Salem Abdul Aziz Al-Sabah
The Governor**

**General Guidelines
of Internal Supervision Systems
of Exchange Companies**

September 1999

**General Guidelines
of Internal Supervision Systems
of Exchange Companies**

Part	Topic
Part I	General Introduction
Part II	<u>Accounting and other types of records</u> <ul style="list-style-type: none">- Introduction- General Requirements- Management information
Part III	<u>Internal Supervision Systems</u> <ul style="list-style-type: none">- Introduction- General Requirements- Automated Information Systems (AIS)- Internal Audit
Part IV	Duties and Responsibilities of the External Auditor

General Guidelines of Internal Supervision Systems of Exchange Companies Part I

General Introduction:

- 1- Based on the provisions of Article (13) of Minister of Finance Ministerial Order issued 19 March 1984 concerning Subjugation of the Currency Exchange Companies to the Control of the Central Bank of Kuwait, the CBK stresses that it is vital that exchange companies registered with it lay down internal supervision systems sufficient for and proportionate to the volume, nature, and areas of their activities and commit to the enforcement thereof, in a manner that provides a basis for management of risks they face in their daily work. These systems must be put in writing and approved by a company's top management.
- 2- The company's top management is accountable for the sufficiency of accounting and other records and of internal supervision systems in the company. "Top Management" refers to Chairman of the Board, Executive Chairman or General Manager in shareholding companies, and those who are authorized to manage the company, be they partners or other parties in companies of other legal form/structure.
- 3- All exchange companies registered with the CBK are to include detailed annual reports in their closing data, to address level of sufficiency/adequacy of their internal supervision systems, and the reports are to be prepared by a company's external auditor.

The company's external auditor is required to present and is accountable for his opinion and observations regarding the sufficiency of the company's internal supervision and regulations, in both qualitative and quantitative terms, and in a manner that allows for the running of the business prudently and the management of risks the company faces during its daily activity. Accordingly, the duty of the external auditor is mainly concerned with pointing out any internal supervision shortcomings he perceives during auditing, and presenting recommendations in this regard.

- 4- The guidelines specify the scope and nature of the financial information and data that must be included in accounting records and other types of records which are presented to company management. They also specify the range and nature of the internal supervision systems and the purposes company management had introduced them to serve.

- 5- This guidebook does not aim to exhaustively present the internal supervision procedures that apply to all companies or to present a comprehensive list of types and forms of accounting and other records that are suitable for each company, but rather to specify the general requirements that must be satisfied in this regard to guarantee the good and smooth running of business within any company concerned.

Part II

Accounting and other types of records

Introduction:

6- The scope and nature of accounting records and other types of records required for good and orderly running of business must be harmonious with the company's particular needs and conditions, taking into account the volume and nature of the company's activities and methods used in regulation and management thereof. The appropriate method must be employed for the saving of these records (whether in terms of location, or accountability for the safekeeping of these records) which allows for good management of the company's daily business by those in charge.

General Requirements:

7- The general requirements which must be satisfied by accounting records and other types of records are as follows:

- a- Logging of all company operations and undertakings in timely, methodical, and regular manner that guarantees clear indication of the following information regarding these operations and undertakings:
 - 1- The nature and purpose of operations and/or undertakings.
 - 2- Any assets and/or liabilities, real or contingent, that result or may result.
 - 3- Any revenues and/or expenses, current or deferred, that result.
- b- Saving of financial data and other information related to company activity in a manner that allows easy access to enable management to achieve the following:
 - 1- Monitor and maintain quality of company assets, where this includes the assets the company is holding in trust (such as traveler's cheques).
 - 2- Identify and specify type and level of risk the company might face in its areas of activity, most importantly exchange rate, interest rate, and operation risk.
 - 3- Improving performance of company activity constantly and taking required decisions in timely manner based on sound facts and information.

Management Information:

8- Each company is to employ a suitable information system that provides its top management with all data and information regularly to aid in the evaluation and monitoring of the company's performance and financial position, as well as the risks it might face. This information should most particularly include the following:

- a- The company's financial position.
- b- Operating Results for each time period, and on aggregate basis in comparison to results of the previous period.
- c- Analysis of revenue and expenditure.
- d- Analysis of assets and liabilities, indicating the method used in valuation thereof.

Part III

Internal Supervision Systems

Introduction:

- 9- The scope and nature of internal supervision systems employed for the good and smooth running of business must be in harmony with the company's particular needs and conditions, taking into account the volume and nature of the company's activities, the level of supervision employed by top management on the daily activity, and the degree to which management of the business is centralized. Consideration must also be given to compatibility of implementation or maintaining of different supervision measures or systems and the cost that entails with the benefits realized through or expected to be realized from implementation.

The internal supervision systems must be designed to provide sufficient guarantees for meeting goals for which they were introduced; they must provide sufficient guarantee that all company revenues end up in its own coffers, that all expenditure is approved virtue of the required authorization and spent properly, that all assets are sufficiently protected, that all liabilities are recorded, and that all legal requirements concerning records and accounts are satisfied, and that all conditions and procedures for the reports that present information to top management are accurately observed.

General Requirements:

- 10- Company top management is responsible for the introduction of the internal supervision systems and for the regular review and testing of said systems to ensure continued efficacy and meeting of objectives on daily basis.
- 11- The internal supervision systems enforced by companies must stress the following:
- a- That work is executed in regular and judicious manner, in compliance with enforced policies and restraints, and in harmony with the stipulated capacities/ privileges (such as authorization to appropriate company deposits with Business Correspondents (BCs) for the purpose of practicing an activity, executing transfers, and investing surplus).
 - b- That there are supervision and monitoring systems in place to enable management to protect company assets and monitor liabilities related to operation, and measures to limit risk of losses caused by any violation of proper form, by deception, or by errors, and that the systems employed guarantee easy and immediate identification of such losses, should any be incurred.

- c- That the accounting records, as well as other company records, provide complete, accurate, and timely information (as stipulated in the second part of this guidebook).
 - d- That management is able to, regularly and timely, manage and monitor the elements of the financial position.
 - e- That there are systems and guidelines that enable company management to identify and assess risks related to losses that it might suffer in its fields of activity, so as to allow it to manage and monitor risks regularly and in timely manner and to determine the value of the allocations required to offset these losses.
 - f- That management is to prepare all data and reports required by the CBK with all due accuracy and compliance with CBK instructions, and to present these at the proper time.
- 12- The most important areas and components of an effective internal supervision system, which must be given enough attention by the company with due consideration to the nature, volume, and areas of company activity, are as follows:
- a- Organizational Structure
 - b- Supervising and monitoring performance.
 - c- Segregation of duties and responsibilities (SOD).
 - d- Authorization and approval controls.
 - e- Audit completion and accuracy.
 - f- Protection of assets.
 - g- Personnel controls.

Following is a review of these components:

(A) Organizational Structure:

An exchange company must establish and document an organizational structure suitable for the volume and nature of company activity and one which shows hierarchy, and must also indicate competencies and responsibilities, the type of reporting used for each activity, as well as draft proper job descriptions in general, while giving added attention to supervisory positions in this respect.

(B) Supervising and monitoring performance:

Exchange companies must introduce procedures that guarantee sufficient and accurate information relevant to the company's performance, financial position, and liabilities is presented to its top management, on regular basis and in timely manner [see paragraph (8)].

(C) Segregation of duties and responsibilities (SOD):

Segregation of duties and responsibilities is among the key internal supervision components, and one which is to be observed so that no transaction in its entirety may be recorded and executed by a single employee. The segregation of duties reduces risk stemming from duplicity and errors and enhances efficacy of review and control processes.

(D) Authorization and approval controls:

All operations require the approval of a suitable official, in view of a prior specification of powers and responsibilities. Powers given to must be proportionate to the responsibilities of any position in the hierarchy, with due consideration to the nature and volume of company operations.

(E) Audit completion and accuracy:

Exchange companies must lay down the guidelines to guarantee that all operations prepared for recording and execution are authorized, recorded properly, and executed accurately and in compliance with agreed-upon procedures.

These guidelines include, mainly, review of the accounting accuracy of all entries and correspondence to relevant documents, valuation processes, settlement of standings (be that internally between different records and accounts or externally with other parties), and control and supervision accounts and trial balances.

(F) Protection of assets:

The company must have guidelines to guarantee that only those authorized by management have access (direct and otherwise) to assets and information.

Such guarantees are of greatest importance where the assets concerned are material, movable, exchangeable or encashable, as well as fiduciary assets.

(G) Personnel controls:

The company must adopt policies and measures to guarantee that employees' capabilities are proportionate to their responsibilities, since good and smooth running of business in any system is dependent on the efficiency and integrity of those operating it. Attention to qualifications, hiring policies, and training, along with the personal traits of staff members is an important aspect of constructing supervision systems.

Automated Information Systems (AIS):

13- Companies operating through five branches or more (including Headquarters) must employ the use of Automated Information Systems (AIS) in their operations and activities, in the manner befitting the volume and nature of the company's activity and taking into account risks inherent in use of said systems, such as system shut downs, system failures, or presentation of false information.

It is permissible and possible to realize the appropriate level of supervision using both manual and automated control systems in a manner befitting each company's unique situation. A company must attach due care to the consideration of the suitable options among these controls and the cost involved to effectively meet supervision objectives.

Internal Audit:

14- The internal audit is an important part of internal supervision systems, providing independent confirmations of soundness and efficacy of these systems, which therefore helps avoid many risks to company activity, most importantly operational risks to exchange companies' activity.

An exchange company must, therefore, seriously consider internal audit where the scope and objectives are decided in view of top management's assessment of the company's needs, in keeping with the volume, nature, and fields of activity and risk inherent in its operations.

Exchange companies operating through three branches or more (including Headquarters) must set up an internal audit unit suitable to the volume, nature, and fields of activity.

The efficacy of the internal audit towards provision of an independent assessment of sufficiency of controls and regulations depends on several factors, most important of which are level of independence from the executive body, sufficiency of scope and periodicity of audit and audit procedures, as well as the reporting system and the qualifications and expertise of those executing the audit.

15- The most important functions of an internal audit in the area of internal supervision are:

- a- Reviewing accounting and other records.
- b- Reviewing sufficiency and efficacy of the implemented internal controls systems.
- c- Quarterly testing operations and balances to guarantee supervision objectives are being met.
- d- Ascertaining compliance with company-set policies and limitations and to CBK laws, decisions, and instructions.
- e- Conducting company checks and inspections.

Part IV

Duties and Responsibilities of the External Auditor

16- The company's external auditor must formulate his opinion as to the company's level of compliance – for the period audited – with the CBK requirements detailed in this guidebook regarding sufficiency of accounting and other records and of internal supervision controls, taking into account the nature and volume of company activity.

17- Reservations in an auditor's report covers the following:

- a- Non-availability of certain records or systems the auditor believes necessary to help management handle daily company business in a judicious manner.
- b- Any weakness or inadequacy which is deemed material and which could affect records or systems during the audited period.
- c- The external auditor's inability to form a clear opinion regarding one aspect of records and systems, leading him to believe the matter needs to be discussed in a joint meeting with both the Central Bank of Kuwait and the company concerned.

18- The external auditor must, in his report, indicate any observation of the recurrence of a specific deficiency that had been indicated in his previous audits.

Furthermore, the external auditor must consider whether company measures are sufficient to prevent and detect any cases of, and report any suspicions of, money laundering.

(Refer to CBK instructions concerning combating money laundering)

19- In case of a qualified external auditor report, the auditor is required to clearly point out the risks the company faces due to an observed deficiency, and point out the severity of the deficiency and its implications, if it is not rectified. The time frame for a company response to any recommendations is a matter that is agreed between the concerned company and the CBK.

- 20- The company shall complete and present the audit report to the CBK, along with the observations and comments it sees fit, within the closing financial data, within a period not exceeding three months from end of concerned fiscal year, in line with provisions of article 15 of the Ministerial Order Concerning the Subjugation of the Currency Exchange Companies to the Control of the Central Bank of Kuwait.

The observations and the company management comments must be sent to the external auditor at the same time of their presentation to the CBK. If the company fails to present the report to the CBK within the specified time, for any reason, it is required to notify the CBK of the reasons for the delay in writing as soon as such inability to complete the report on-time is realized.

29 Jumada II 1422 H
17 September 2001

The Chairman of the Board of Directors,

Please be advised that as of 01/01/2002, actual circulation of the Euro would start among all members of the public as a unified national currency in 12 European countries; Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Holland, Portugal, and Spain.

As of 01/09/2001, the European Central Bank (ECB) had started distributing around Euro 600 billion to commercial banks, which would in turn distribute a large amount of this sum to commercial establishments in the following months, to familiarize commercial establishment owners with the new currency.

Furthermore, commercial establishments in the Eurozone would as of 01/01/2002 start officially accepting the Euro as currency for financial transactions. Members of the public may use their national currencies till 28/02/2002 at the latest, after which all national currencies of Eurozone countries cease to be legal tender and may be exchanged at Eurozone commercial banks according to the dates specified by each European country and by end of 2002 at the latest. However, national central banks of the Eurozone would, for a lengthy period, continue to exchange such currencies, until 2004 at the least.

Commercial banks would also exchange all different European currencies in their customers' accounts as of 01/01/2002. Points of distribution of the Euro to the members of the public are: commercial banks, commercial establishments, and ATM machines, with the latter expected to contribute about 70% of the circulation and distribution of the new currency.

In view of the following, your company is to take the necessary measures to facilitate the purchase and sale of the Euro as of 01/01/2002 and to consider available resources and future arrangements to enable the members of the public in the State of Kuwait to exchange Eurozone currencies in their possession for the right amount in Kuwaiti Dinar or in Euro.

Your company is also required to be acquainted with all security features of the Euro and consider precautionary measures against the possibility of criminal organizations attempting to market forged Euros early into circulation while members of the public are not yet familiar with the new currency.

Best regards,

Executive Director, Supervision Sector
Ibrahim Ali Al-Qadhi

5 Rabi' Al-Akhir 1425 H
24 May 2006

The Chairman,

Circular (2/SE/160/2004)
“To all Exchange Companies”

Virtue of provisions of article (71 bis) of law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, which included the specification that the ratio of the national labor force in units subject to CBK supervision shall not be lower than 50%, or than the ratio specified by the Council of Ministers in pursuance of Article (9) of Law No. 19/2000, whichever is higher, and that said units must adjust their position in view of the above within three years of said article entering effect, taking into consideration the lists provided by exchange companies regarding the number of their staff, as on 31/12/2003,

Your company shall take all necessary measures to bring up the percentage of its national labor force to 50% by 15/03/2007.

Furthermore, in implementation of provisions of abovementioned Article (71 bis); the CBK has decided a time-frame of six bi-annual periods, which is as follows:

Period	Target Ratio
By 15/09/2004	13% at least
By 15/03/2005	21% at least
By 15/09/2005	29% at least
By 15/03/2006	36% at least
By 15/09/2006	43% at least
By 15/03/2007	50% at least

Your company shall therefore comply with abovementioned time-frame to reach the target 50% by 15/03/2007. Additionally, penalties shall be considered (in line with provisions of amended [Article 85] of Law No. 32/1968) should any notable deviation from the target percentage for any of the specified six periods be recorded, without acceptable justifications.

With my best wishes,

Salem Abdulaziz Al-Sabah
The Governor

26- Circular concerning national labor force ratio in exchange companies.

- a) Circular No. (2/ES/160/2004) on the time-frame for compliance with national labor force ratios in exchange companies as stated in article (71 bis) of Law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business.

THE EXECUTIVE DIRECTOR

28 Sha'ban 1427 H
21 September 2006

The General Manager,

Circular
“to Some Banks, Investment Companies, and Exchange Companies”

In reference to the CBK circular dated 24/05/2004 concerning the time-frame towards compliance with the national labor force ratio stated upon in Article (71 bis) of Law No.32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, which is 50%,

Taking into consideration the efforts exerted on your part to achieve the required national labor force ratio according to the set time-frame,

Also taking into consideration that the deadline within the time-frame specified in view of provisions of abovementioned Article (71 bis) is 15/03/2007, the Central Bank of Kuwait hopes these efforts continue towards realization of the national labor force ratio required in view of the provisions of said article.

Best regards,

Executive Director, Supervision Sector
Ibrahim Ali Al-Qadhi

26- Circular concerning national labor force ratio in exchange companies.

- b) Circular concerning follow up on national labor force ratio in exchange companies, which must be at least 50% of total labor force or the percentage the Council of Ministers specifies in implementation of provisions of Article (9) of law No. 19/2000, whichever is higher.

THE EXECUTIVE DIRECTOR

*3 Safar 1428 H
21 February 2007*

The General Manager,

**Circular
“to Some Banks, Investment Companies, and Exchange Companies”**

In reference to the CBK circular dated 21/09/2006 concerning follow up on national labor force ratio in banks/companies which must not fall below 50% of all labor force or below the percentage specified by the Council of Ministers in implementation of Article (9) of Law No. 19/2000, whichever is higher, virtue of provisions of Article (71 bis) of Law No.32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business,

You are required to provide the periodical employees list as on 15/03/2007, within ten business days of said date.

Best regards,

**Executive Director, Supervision Sector
Ibrahim Ali Al-Qadhi**

26- Circular concerning national labor force ratio in exchange companies.

c) Circular concerning the requirement to notify the CBK with periodical employees list, as on 15/03/2007.

**Law No. 64 of 2007
Concerning Amendment to the First Paragraph
of Article (71 bis) of Law No. (32/1968)
Concerning Currency, the Central Bank of Kuwait,
and the Organization of Banking Business**

Having perused

- The Constitution,
- Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, and amending laws thereof,
- Law No. (19/2000) concerning Support and Promotion of National Labor to Work in the Non-Governmental Entities and amending laws thereof,

The National Assembly approved, and we promulgated the following:

Article One

The first paragraph of the first item of Article (71 bis) of abovementioned Law No. (32/1968) is replaced by a new text, which reads as follows:

* The ratio of the national labor force in a bank to the bank's total labor force shall not be lower than fifty percent, or than the ratio defined by the Council of Ministers in pursuance of Article (9) of Law No. (19/2000) concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, whichever is higher.

Article Two

The Prime Minister and Ministers – each as competent – shall enforce this law.

**The Deputy Amir
Nawwaf Al-Ahmad Al-Jaber Al-Sabah**

Issued in Seif Palace on: 16 Thu Al-Hijjah, 1428 A.H.
Corresponding to: 25 December, 2007 A.D.
Published in the official state gazette, Kuwait Al-Youm,
issue No. 852, Fifty-fourth year.
Sunday: 28 Thu Al-Hijjah, 1428 A.H.
Corresponding to: 6 January 2008 A.D.

26- Circular concerning national labor force ratio in exchange companies.

- d) Law No.64/2007 concerning amendment to the first paragraph of Article (71 bis) of Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, as amended.

**Explanatory Memorandum
on Law No. (64) of 2007
Concerning Amendment of the First Paragraph
of Article (71 bis) of Law No. (32) of 1968
Concerning Currency, the Central Bank of Kuwait,
and the Organization of the Banking Business**

Law No. (28) for the year 2004 was issued amending some provisions of Law No. (32) for 1968 concerning Currency, the Central Bank of Kuwait, and the Organization of the Banking Business, with the purpose of bolstering the bank's comprehensive supervision over Kuwaiti banks' branches and off-shoot companies abroad, and of adjusting to the era of liberalizing of financial services and the resultant need for bolstering efforts aimed at supporting the national labor force in the banking system.

The law mentioned, (28) for the year 2004, included introduction of a new text under Article (71 bis) which states that national labor force ratio in Kuwaiti banks and units subject to Central Bank of Kuwait supervision shall not fall below 50%, or below the ratio decided upon by the Council of Ministers virtue of Article (9) of the law concerning Support and Promotion of National Labor to Work the Non-Governmental Entities.

Since the banking business is the backbone of an array of financial units, and subject to provisions of Article (71 bis) abovementioned, it was deemed fitting to exclude exchange companies and establishments from scope of said article, while keeping the remaining units indicated by CBK law and subject to its supervision within its scope of implementation, indicated by the following text:

“The ratio of the national labor force in a bank to the bank's total labor force shall not be lower than fifty percent, or than the ratio defined by the Council of Ministers in pursuance of Article (9) of the mentioned Law No. 19 for the year 2000, whichever is higher. With the exception of exchange companies and establishments, this provision applies to units subject to the supervision of the Central Bank of Kuwait.”

26- Circular concerning national labor force ratio in exchange companies.

- d) Law No.64/2007 concerning amendment to the first paragraph of Article (71 bis) of Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, as amended.

Correction

An error had occurred in the Explanatory Memorandum on Law No. (64) of 2007 Concerning Amendment of the First Paragraph of Article (71 bis) of Law No. (32) of 1968 Concerning Currency, the Central Bank of Kuwait, and the Organization of the Banking Business, published in issue no. (852) dated 06/01/2008 of the state's official gazette, Kuwait Al-Youm.

Therefore, we are re-publishing the memo on mentioned law to correct the error.

Explanatory Memorandum on Law No. (64) of 2007 Concerning Amendment of the First Paragraph of Article (71 bis) of Law No. (32) of 1968 Concerning Currency, the Central Bank of Kuwait, and the Organization of the Banking Business

Law No. (28) for the year 2004 was issued amending some provisions of Law No. (32) for 1968 concerning Currency, the Central Bank of Kuwait, and the Organization of the Banking Business, with the purpose of bolstering the bank's aggregate supervision over Kuwaiti banks' branches and subsidiary companies abroad, and of adjusting to the era of liberalizing of financial services and the resultant need for removing legislative restrictions to allowing entry of foreign banks into the local market, and bolstering efforts aimed at supporting the national labor force in the banking system. Said law, 28/2004, included introduction of a new text under Article (71 bis) which states that national labor force ratio in Kuwaiti banks and units subject to Central Bank of Kuwait supervision shall not fall below 50%, or below the ratio decided upon by the Council of Ministers virtue of Article (9) of Law No. 19 for the year 2000 concerning support of the national labor force, within three years of it entering effect.

Since the banking business is the backbone of an array of financial units including banks, public credit institutions which are established by issue of a law, financial companies, and investment companies, among others, and the legislator having addressed the banking business/profession in Chapter III of Law No. 32 of 1968, aforementioned, where Article (55) states, "The provisions of this Chapter shall not apply to:

a- Public Credit Institutions

b- Financial and investment institutions and companies, even if they are permitted by their articles of association to receive deposits and execute investment operations and some banking operations

c-

26- Circular concerning national labor force ratio in exchange companies.

- d) Law No.64/2007 concerning amendment to the first paragraph of Article (71 bis) of Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, as amended.

The CBK board may, with the Minister of Finance's approval, subject all or some of the institutions and companies mentioned in this article to all or some provisions of this Chapter or to any supervisory regulations that correspond to the nature of the activity of these institutions and companies which are drawn up by the CBK board."

In view of the above, it is apparent that subjecting such institutions and companies to CBK supervision, a matter of permissibility and one which has been left up to the CBK's discretion, is to be taken to mean supervision over the financial activity of these institutions and companies. And since these institutions and companies are private non-government companies, their management is subject to Law No. 15 of the year 1960 concerning Commercial Companies and its amendments, and their staff are subject to treatment stated upon in Law No. 38 of the year 1964 concerning Labor in the Private Sector and its amendments, being commercial companies engaged in financial activity, which necessitates subjecting them to provisions of Law No. 19 of the year 2000 aforementioned, concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, as with other peer non-government companies which are engaged in different activities.

While Article II of Law No.28 of 2004 aforementioned had included stated upon the addition of a new article, (71 bis), whereby "the ratio of the national labor force in a bank to the total labor force shall not be lower than fifty percent, or than the ratio defined by the Council of Ministers in pursuance of Article (9) of the mentioned Law No. 19 for the year 2000, whichever is higher," and where said article continues to indicate that, "This provision applies to units subject to the supervision of the Central Bank of Kuwait," This law has been prepared Exempting institutions and companies stated upon in Article (55) of Law No. 32/1968 from provisions of Article (71 bis), mentioned above, so that it is sufficient (since it is deemed sufficient ...?) they remain subject to provisions of Article (9) of Law No. 9/2000 concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, to grant them the same treatment as other peer non-government companies where all companies are subject to one and the same law, where provisions of Article (71 bis) shall apply to banks only, while non-government institutions and companies shall be exempt.

26- Circular concerning national labor force ratio in exchange companies.

- d) Law No.64/2007 concerning amendment to the first paragraph of Article (71 bis) of Law No. (32/1968) concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business, as amended.

**Council of Ministers Resolution No. 1104/Fifth for the Year 2008
Concerning the Ratio of National Labor
in non-Government Entities**

The Council of Ministers,

Having perused Law No. (19/2000) concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, amended by Law No. (22/2003),

Council of Ministers Resolution No. (904/2002) concerning the ratio of national labor force in non-government entities and subsequent resolutions amending it, and Resolution No. (955/2005) concerning change of tables indicating ratios for national labor,

and upon the recommendation of the Manpower and Government Restructuring Program, and with the approval of the Civil Service Commission,

and in view of a presentation by the Deputy Prime Minister or Minister of State for Cabinet Affairs,

**resolved
Article (1)**

When implementing provisions of this resolution, National Labor is taken to mean any Kuwaiti national who is employed with a non-government body and subscribed as such with the Public Institution for Social Security as an “insured person”, while Non-National Labor means any non-Kuwaiti employed with and sponsored by a non-government body.

Article (2)

Government bodies, including military and oil bodies, may not directly contract or award tenders to a non-government body that is not compliant with the national labor ratio indicated in either of the two attached tables, according to its economic activity.

The party for which a project is executed may, in coordination with the Central Tenders Committee, the Ministry of Social Affairs and Labor, and the Manpower and Government Restructuring Program stipulate compliance with a ratio of national labor higher than that indicated in said tables in the terms and conditions of the contract, practice, or tender, specifically relating to execution of said project, and may indicate a specific ratio within these terms and conditions.

26- Circular concerning national labor force ratio in exchange companies.

- e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 03/11/2008 and published 09/11/2008 concerning the ratio of national labor in non-government entities.

Article (3)

Non-government entities shall follow national labor ratios in either of the attached tables, according to their economic activity, when applying for in-kind or financial support provided by government bodies, including disposal, lease, or allocation of state property in line with articles (16, 17, 18) of Decree Law No. (105/1980) concerning State Property System, as amended by Law No. (8/1988).

Article (4)

Any party lodging an application requesting access to state real property, or any in-kind or financial benefit to be used towards practice of a trade or a profession or engagement in an industrial, commercial, vocational, or agricultural activity shall be in compliance with the ratios of national labor force in either of the attached tables, according to his economic activity, within a period not exceeding one year from grant of access to property or benefit or within six months of starting business, whichever is sooner. An additional annual fee shall be imposed on any party failing to comply with the ratios, as stated in the following article.

Article (5)

Non-government entities shall comply with the national labor force ratios indicated in the two attached tables, according to their economic activity, while the stated upon fees shall be imposed on any party with a non-national labor force ratio exceeding the ratio exempt of fees.

A non-government entity which fails to comply with the indicated ratios shall be charged an additional annual fee of KD (100) per work permit or license issued for a non-Kuwaiti worker upon the request of said entity in excess of the stated upon ratio for the non-national labor force. The Work Department of the Ministry of Social Affairs and Labor shall be responsible for collection of said fee, in coordination with the Manpower and Government Restructuring Program.

Article (6)

The Ministry of Social Affairs and Labor shall, after coordinating with the Manpower and Government Restructuring Program and upon the request of each non-government entity, issue a certificate indicating labor force ratios at the entity and the level of its compliance with the set ratios.

The certificate has a validity of one year as of date of issue, and the entity for which the certificate is issued shall notify the Ministry of Social Affairs and Labor of any change that takes place during this period that alters its labor ratios.

26- Circular concerning national labor force ratio in exchange companies.

- e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 03/11/2008 and published 09/11/2008 concerning the ratio of national labor in non-government entities.

Article (7)

The ratios indicated in tables (1,2), attached, shall apply to all non-government entities employing 25 workers and above.

Article (8)

Council of Ministers Resolution No. (904/2002), resolutions amending or adding to it, and Resolution No. (955/2005) changing the labor force ratios table attached to Resolution No. (904/2002) are repealed, as are all texts that conflict with the provisions of this resolution.

26- Circular concerning national labor force ratio in exchange companies.

e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 03/11/2008 and published 09/11/2008 concerning the ratio of national labor in non-government entities.

Table (1)
National Labor Force Ratio to be Observed by
Non-Government Entities, According to Economic Activity

Serial Number	Economic Activity	Ratio
1	Banks	60%
2	Communications	56%
3	Finance and Investment Companies	40%
4	Petrochemicals, Refining	30%
5	Childcare Centers	30%
6	Insurance	16%
7	Real Estate, Business Services	15%
8	Banking/Exchange	13%
9	Arabic Private Schools	10%
10	English Private Schools	5%
11	Agriculture, Hunting/Fishing, Herding	2%
12	Manufacturing	2%

- When calculating the number of non-national workers in excess to the number allowed in view of the ratios in the table above, the exact figures are to be rounded to whole numbers.
- Non-government entities shall comply with the ratios indicated in the table to be granted in-kind or financial support, rights to state real property, or any other in-kind or financial benefit, and while entering direct contract or bidding for a practice or tender.

26- Circular concerning national labor force ratio in exchange companies.

- e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 03/11/2008 and published 09/11/2008 concerning the ratio of national labor in non-government entities.

Table (2)
Ratio of Kuwaitis in the non-Government Sector
According to Main Vocations in Economic Activities

Serial Number	Economic Activity	Ratio				
		Scientists/ Researchers & Technicians	Managers	Clerks & Executives	Salesmen	Service Providers
1	Hotels	4%	17%	20%	12%	5%
2	Tourism & Travel Agencies	4%	20%	25%	25%	5%
3	Aviation & Shipping Cos.	6%	30%	34%	25%	5%
4	Mines & Quarries	7%	60%	56%	0%	5%
5	Building & Construction	10%	35%	20%	3%	5%
6	Transport & Storage	10%	35%	25%	2%	5%
7	Hospitals & Medical Centers	5%	35%	35%	2%	5%
8	Electricity, Gas, Lighting	10%	21%	30%	10%	20%
9	Trading & Restaurants	5%	20%	17%	5%	5%
10	Social Services	10%	30%	35%	5%	5%
11	Papers	10%	30%	35%	10%	5%
12	Cooperative Consumer Societies	7%	50%	15%	5%	5%

26- Circular concerning national labor force ratio in exchange companies.

- e) Council of Ministers Resolution No. 1104/Fifth for the year 2008, dated 03/11/2008 and published 09/11/2008 concerning the ratio of national labor in non-government entities.

Council of Ministers

Correction

The published text of Council of Ministers Resolution No. 1104/Fifth for the year 2008, published in issue No. (896) dated 9/11/2008 contained some typographical errors,

Thus, this corrected text is hereby published.

Council of Ministers Resolution No. 1104/Fifth for the Year 2008 Concerning the Ratio of National Labor in non-Government Entities

The Council of Ministers,

Having perused Law No. (19/2000) concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, amended by Law No. (32/2003),

Council of Ministers Resolution No. (904/2002) concerning the ratio of national labor force in non-government entities and subsequent resolutions amending it, and Resolution No. (955/2005) concerning change of tables indicating ratios for national labor,

and upon the recommendation of the Manpower and Government Restructuring Program, and with the approval of the Civil Service Commission,

and in view of a presentation by the Deputy Prime Minister or Minister of State for Cabinet Affairs,

resolved

Article (1)

When implementing provisions of this resolution, National Labor is taken to mean any Kuwaiti national who is employed with a non-government body and subscribed as such with the Public Institution for Social Security as an “insured person”, while Non-National Labor means any non-Kuwaiti employed with and sponsored by a non-government body.

Article (2)

Government bodies, including the military and oil sectors, may not directly contract or award practices and tenders to a non-government body that is not compliant with the national labor ratio indicated in either of the two attached tables, according to its economic activity.

26- Circular concerning national labor force ratio in exchange companies.

- f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 07/12/2008 concerning the ratio of national labor in non-government entities.

The party for which a project is executed may, in coordination with the Central Tenders Committee, the Ministry of Social Affairs and Labor, and the Manpower and Government Restructuring Program stipulate compliance with a ratio of national labor higher than that indicated in said tables in the terms and conditions of the contract, practice, or tender, specifically relating to execution of said project, and may specify this ratio within the terms and conditions.

Article (3)

Non-government entities shall comply with national labor ratios in either of the attached tables, according to their economic activity, when applying for in-kind or financial support provided by government bodies, including disposal of, lease, or allocation of state property in line with articles (16, 17, 18) of Decree Law No. (105/1980) concerning State Property System, as amended by Law No. (8/1988).

Article (4)

Any party lodging an application requesting access to state real property, or any in-kind or financial benefit to be used towards practice of a trade or a profession or engagement in an industrial, commercial, vocational, or agricultural activity shall be in compliance with the ratios of national labor force in either of the attached tables, according to his economic activity, within a period not exceeding one year from grant of access to property or benefit or within six months of starting business, whichever is sooner. An additional annual fee shall be imposed on any party failing to comply with the ratios, as stated in the following article.

Article (5)

Non-government entities shall comply with the national labor force ratios indicated in the two attached tables, according to their economic activity, while the stated upon fees shall be imposed on any party with a non-national labor force ratio exceeding the ratio exempt of fees.

A non-government entity which fails to comply with the indicated ratios shall be charged an additional annual fee of KD (100) per work permit or license issued for a non-Kuwaiti worker upon the request of said entity in excess of the stated upon ratio for the national labor force. The Work Department of the Ministry of Social Affairs and Labor shall be responsible for collection of said fee, in coordination with the Manpower and Government Restructuring Program.

26- Circular concerning national labor force ratio in exchange companies.

- f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 07/12/2008 concerning the ratio of national labor in non-government entities.

Article (6)

The Ministry of Social Affairs and Labor shall, after coordinating with the Manpower and Government Restructuring Program and upon the request of each non-government entity, issue a certificate indicating labor force ratios at the entity and the level of its compliance with the set ratios.

The certificate has a validity of one year as of date of issue, and the entity for which the certificate is issued shall notify the Ministry of Social Affairs and Labor of any change that takes place during this period that alters its labor ratios.

Article (7)

The ratios indicated in tables (1,2), attached, shall apply to all non-government entities employing 25 workers and above.

Article (8)

Council of Ministers Resolution No. (904/2002), resolutions amending or adding to it, and Resolution No. (955/2005) changing the labor force ratios table attached to Resolution No. (904/2002) are repealed, as are all texts that conflict with the provisions of this resolution.

Article (9)

The Ministers – each as competent – shall enforce this resolution, and it shall be published in the official gazette and enter effect six months from date of publication.

Prime Minister

Nasser Al-Mohammad Al-Ahmad Al-Sabah

Issued on: 5 Thu Al-Qeda, 1429 A.H.

Corresponding to: 3 November, 2008 A.D.

Published in the official state gazette, Kuwait Al-Youm, issue No. 900, Fifty-fourth year.

Sunday: 9 Thu Al-Hijjah, 1429 A.H.

Corresponding to: 7 December 2008 A.D.

26- Circular concerning national labor force ratio in exchange companies.

- f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 07/12/2008 concerning the ratio of national labor in non-government entities.

Table (1)
National Labor Force Ratio to be Observed by
Non-Government Entities, According to Economic Activity

Serial Number	Economic activity	Ratio
1	Banks	60%
2	Communications	56%
3	Finance and Investment Companies	40%
4	Petrochemicals, Refining	30%
5	Childcare Centers	30%
6	Insurance	16%
7	Real Estate, Business Services	15%
8	Banking/Exchange	13%
9	Arabic Private Schools	10%
10	Foreign Private Schools	5%
11	Agriculture, Hunting/Fishing, Herding	2%
12	Manufacturing	2%

- When calculating the number of non-national workers in excess to the number allowed in view of the ratios in the table above, the exact figures are to be rounded to whole numbers.
- Non-government entities shall comply with the ratios indicated in the table to be granted in-kind or financial support, rights to state real property, or any other in-kind or financial benefit, and while entering direct contract or bidding for a practice or tender.

26- Circular concerning national labor force ratio in exchange companies.

- f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 07/12/2008 concerning the ratio of national labor in non-government entities.

Table (2)
Ratio of Kuwaitis in the non-Government Sector
According to Main Vocations in Economic Activities

Serial Number	Economic Activity	Ratio				
		Scientists/ Researchers & Technicians	Managers	Clerks & Executives	Salesmen	Service Providers
1	Hotels	4%	17%	20%	12%	5%
2	Tourism & Travel Agencies	4%	20%	25%	25%	5%
3	Aviation & Shipping Cos.	6%	30%	34%	25%	5%
4	Mines & Quarries	7%	60%	56%	0%	5%
5	Building & Construction	10%	35%	20%	3%	5%
6	Transport & Storage	10%	35%	25%	2%	5%
7	Hospitals & Medical Centers	5%	35%	35%	2%	5%
8	Electricity, Gas, Lighting	10%	21%	30%	10%	20%
9	Trading & Restaurants	5%	20%	17%	5%	5%
10	Social Services	10%	30%	35%	5%	5%
11	Papers	10%	30%	35%	10%	5%
12	Cooperative Consumer Societies	7%	50%	15%	5%	5%

- When calculating the number of non-national workers in excess to the number allowed in view of the ratios in the table above, the exact figures are to be rounded to whole numbers.
- Non-government entities shall comply with the ratios indicated in the table to be granted in-kind or financial support, rights to state real property, or any other in-kind or financial benefit, and during times of signing of direct contracts or bidding for practices or tenders.

26- Circular concerning national labor force ratio in exchange companies.

- f) Correction concerning Council of Ministers Resolution No. 1104/Fifth for the year 2008, published 07/12/2008 concerning the ratio of national labor in non-government entities.

THE DIRECTOR

*3 Rajab 1429 H
6 July 2008*

The General Manager,

**“Circular to All Banks, Investment Companies,
and Exchange Companies”**

With reference to Law No. (64) for the year 2007 concerning the amendment of the first paragraph of Article (71 bis) of Law No. (32) for 1968 concerning Currency, the Central Bank of Kuwait, and the Organization of the Banking Business, which exempt investment companies and exchange companies from the 50% national labor force requirement stated upon in said article, where said provision shall only be enforced by Kuwaiti banks and branches of foreign banks,

May we direct your attention that your company is still required to provide us with the bi-annual statement as on 30/06 and on 31/12 each year, in which you shall include information on your staff by number, nationality, and posts within company hierarchy, which shall be used by the Central Bank of Kuwait to set up a reference database.

With regards,

**Manager, On-Site Supervision Department
Abdulhameed Dawoud Al-Awadh**

26- Circular concerning national labor force ratio in exchange companies.

g) Circular concerning instruction that exchange companies continue to provide the CBK with bi-annual statement indicating company staff information.

The Council of Ministers

Council of Ministers Resolution No. 1028 for the Year 2014 Concerning Amendment to Council of Ministers Resolution No. 1104/Fifth for the Year 2008 Concerning the Ratio of National Labor in non-Government Entities

The Council of Ministers,

- Having perused Law No. 19 for the year 2000 concerning Support and Promotion of National Labor to Work in Non-Governmental Entities, amended by Law No. (32/2003),
- And Council of Ministers Resolution No. 1104/Fifth for the year 2008 concerning the ratio of national labor force in non-government entities,
- In view of a proposition by the Civil Service Commission,
- And the demonstration by the Minister of State for Cabinet Affairs,

Resolved

Article (1)

Tables No. 1 and 2 attached to Council of Ministers Resolution No. 1104/Fifth for the year 2008 are hereby replaced by the two tables herewith attached.

Article (2)

The ministers – each as competent – shall implement this resolution, and it shall be published in the official gazette, and would enter effect six months from date of publication.

Acting Prime Minister
Sabah Khaled Al-Hamad Al-Sabah

Issued on: 18 Shawwal, 1435 A.H.
Corresponding to: 14 August 2014 A.D.
Published in the official state gazette, Kuwait Al-Youm,
issue No. 1198, Sixtieth year.
Sunday: 28 Shawwal, 1435 A.H.
Corresponding to: 24 August 2014 A.D.

26- Circular concerning national labor force ratio in exchange companies.

- h) Council of Ministers Resolution No. 1028 for the Year 2014 Concerning Amendment to Council of Ministers Resolution No. 1104/Fifth for the Year 2008, published 24/08/2014 concerning specification of ratio of national labor in non-government entities.

Table (1)

**National Labor Force Ratio to be Observed by
Non-Government Entities, According to Economic Activity**

Serial No.	Economic Activity	Ratio
1	Banks	64%
2	Financing & Investment	40%
3	Exchange	13%
4	Real Estate	20%
5	Insurance	18%
6	Business Services	5%
7	Communications	60%
8	Petrochemicals, Refining	30%
9	Manufacturing	3%
10	Agriculture, Hunting/Fishing, Herding	3%
11	Arabic Private Schools	10%
12	Foreign Private Schools	5%
13	Child Care Centers	30%

26- Circular concerning national labor force ratio in exchange companies.

- h) Council of Ministers Resolution No. 1028 for the Year 2014 Concerning Amendment to Council of Ministers Resolution No. 1104/Fifth for the Year 2008, published 24/08/2014 concerning specification of ratio of national labor in non-government entities.

Table (2)
Ratio of Kuwaitis in the non-Government Sector
According to Main Vocations in Economic Activities

Serial Number	Economic Activity	Ratio				
		Scientists/ Researchers & Technicians	Managers	Clerks & Executives	Salesmen	Service Providers
1	Hotels	5%	17%	20%	12%	5%
2	Tourism & Travel Agencies	4%	20%	12%	12%	2%
3	Aviation & Shipping Cos.	15%	30%	20%	10%	5%
4	Mines & Quarries	7%	60%	56%	1%	5%
5	Building & Construction	10%	35%	30%	13%	5%
6	Transport & Storage	18%	40%	35%	15%	10%
7	Hospitals & Medical Centers	3%	35%	35%	10%	5%
8	Electricity, Gas, Lighting	9%	24%	35%	20%	15%
9	Trading & Restaurants	9%	24%	19%	10%	5%
10	Social Services	10%	30%	25%	13%	5%
11	Papers	8%	15%	5%	10%	5%
12	Cooperative Consumer Societies	15%	50%	17%	6%	20%

26- Circular concerning national labor force ratio in exchange companies.

- h) Council of Ministers Resolution No. 1028 for the Year 2014 Concerning Amendment to Council of Ministers Resolution No. 1104/Fifth for the Year 2008, published 24/08/2014 concerning specification of ratio of national labor in non-government entities.

The Council of Ministers

Council of Ministers Resolution No. 1868 for the Year 2018 Concerning Amendment of Some Provisions of Council of Ministers Resolution No. 904 for the Year 2002 Specifying Ratio of National Labor Force in non-Government Entities

The council of Ministers,

- Having perused Decree by Law No. 105 for the year 1980 concerning the State Property System and its amendments,
- Law No. 19 for the year 2000 concerning Support and Promotion of National Labor to Work in non-Governmental Entities and its amendments,
- Law No. 109 for the year 2013 concerning the Public Authority for Manpower,
- Law No. 49 for the year 2017 concerning public tenders,
- And Council of Ministers Resolution No. 904 for the year 2002 specifying ratio of national labor force in non-government entities and its amendments,
- And in view of a proposal by the Public Authority for Manpower and the approval of the Civil Service Commission,
- And in view of the presentation by the Minister of State for Economic Affairs,

Resolved

Article (1)

Text of Article (5) of resolution No. 904 for the year 2002, aforementioned, is replaced by the following text:

“Non-government entities shall comply with the national labor force ratios indicated in the attached table, according to their economic activity, while the stated upon fees shall be imposed should the entity exceed the non-national labor force ratio exempt of fees.

A non-government entity which fails to comply with the indicated ratios shall be charged an additional annual fee of KD (300) per work permit or license issued for a non-Kuwaiti worker upon the request of said entity in excess of the stated upon ratio.

26- Circular concerning national labor force ratio in exchange companies.

- i) Resolution No. 1868 for the year 2018 published 20/01/2019 concerning amendment of some provisions of Council of Ministers Resolution No. 904 for the Year 2002 Specifying Ratio of National Labor Force in non-Government Entities, where the ratio was increased to 15% in exchange companies.

Article (2)

Tables (1, 2, and 3) attached to Council of Ministers Resolution No. (904) for the year 2002, aforementioned, are replaced by the table herewith attached.

Article (3)

The Ministers – each as competent – shall enforce this resolution, and it shall be published in the official gazette and enter effect six months from date of publication.

The Prime Minister
Jaber Mubarak Al-Hamad Al-Sabah

Issued in Seif Palace on: 3 Jumada I, 1440 A.H.
Corresponding to: 9 January, 2019 A.D.
Published in the official state gazette, Kuwait Al-Youm,
issue No. 1428, Sixty-fifth year.
Sunday: 14 Jumada I, 1440 A.H.
Corresponding to: 20 January 2019 A.D.

26- Circular concerning national labor force ratio in exchange companies.

- i) Resolution No. 1868 for the year 2018 published 20/01/2019 concerning amendment of some provisions of Council of Ministers Resolution No. 904 for the Year 2002 Specifying Ratio of National Labor Force in non-Government Entities, where the ratio was increased to 15% in exchange companies.

Ratios Table

Serial No.	Economic Activity	Ratio
1	Agriculture, Agroforestry, Fishing	3%
2	Mining, Quarrying	10%
3	Manufacturing	4%
4	Petrochemicals	30%
5	Electricity, Gas, and Water Supply	5%
6	Construction	4%
7	Wholesale and Retail	5%
8	Consumer Cooperative Societies	15%
9	Land Transport	3%
10	Water Transport	7%
11	Air Transport	15%
12	Mail and Storage	6%
13	Accommodation	8%
14	Food, Beverages Services	4%
15	Information and Communications (except Communications Companies)	10%
16	Communications Companies	65%
17	Financing and Investment	40%
18	Banks	70%
19	Insurance	22%
20	Exchange	15%
21	Real Estate Activity	20%
22	Vocational, Scientific, and Technical Activities	8%
23	Administrative and Support Services	10%
24	Servicing Buildings and Landscaping	3%
25	Private Education (Arabic)	10%
26	Private Education (foreign)	7%
27	Higher Education (private universities and institutes)	30%
28	Human Health	8%
29	Social Work	10%
30	Arts, Entertainment, and other Personal Services	3%

26- Circular concerning national labor force ratio in exchange companies.

- i) Resolution No. 1868 for the year 2018 published 20/01/2019 concerning amendment of some provisions of Council of Ministers Resolution No. 904 for the Year 2002 Specifying Ratio of National Labor Force in non-Government Entities, where the ratio was increased to 15% in exchange companies.

THE EXECUTIVE DIRECTOR

*27 Jumada II, 1440 H.
4 March, 2019*

The General Manager

Circular to Exchange Companies ⁽¹⁾

In view of Council of Ministers Resolution No. 1868 for the year 2018 concerning the amendment of some provisions of Council of Ministers Resolution No. 904 for the year 2002 specifying national labor ratios to be observed by non-government entities, which raised said ratio for exchange companies from (13%) to (15%), as published in the official state gazette on 20/01/2019, which enters effect as of 20/07/2019 (six months from date of publication in the official gazette),

Your company is required to observe the new ratio and continue to present the statement showing development in national labor ratios on bi-annual basis, as required virtue of the CBK Circular dated 06/07/2008, and also to present the statement for the date indicated for compliance with Council of Ministers Resolution No. 1868 for the year 2018, indicated above, issued (20/07/2019) within a maximum of five business days of said date.

With regards,

**Executive Director, Supervision Sector
Waleed M. Al-Awadhi**

(1) Circular issued on 06/08/2019, listed under item 26 concerning providing the CBK with the statement showing development in national labor ratios.

26- Circular concerning national labor force ratio in exchange companies.

- j) Circular to exchange companies with instruction to provide CBK with national labor ratio statement as on 20/07/2019, with due consideration to the issuance of Council of Ministers resolution No. 1868 for the year 2018, which increased the national labor ratio to be observed by exchange companies to 15%.

The Council of Ministers

Correction

Some significant errors had occurred with the published text of Council of Ministers Resolution No. 1868 for the year 2018 amending some provisions of Council of Ministers Resolution No. 1104/Fifth for the year 2008 specifying national labor ratios to be observed by non-government entities, printed on page (104) in issue No. (1428) of the official state gazette, Kuwait Al-Youm, published 20/01/2019.

Thus, this corrected text is hereby published.

**Council of Ministers Resolution No. 1868 for the Year 2018 on
Amendment to Some Provisions of Council of Ministers
Resolution No. (1104/Fifth) for the Year 2008
Concerning the Ratio of National Labor in non-Government Entities**

The council of Ministers,

- Having perused Decree by Law No. 105 for the year 1980 concerning the State Property System and its amendments,
- Law No. 19 for the year 2000 concerning Support and Promotion of National Labor to Work in non-Governmental Entities and its amendments,
- Law No. 109 for the year 2013 concerning the Public Authority for Manpower,
- Law No. 49 for the year 2017 concerning public tenders,
- And Council of Ministers Resolution No. (1104/Fifth) for the year 2008 concerning the specification of ratio of national labor in non-government entities and resolutions amending it,
- And Council of Ministers Resolution No. 962 for the year 2010 excluding some bodies and activities from the specification of ratio of national labor in non-government entities,
- And in view of a proposal by the Public Authority for Manpower and the approval of the Civil Service Commission,
- And in view of the presentation by the Minister of State for Economic Affairs,

26-Circular concerning national labor force ratio in exchange companies.

- k) Correction on Council of Ministers Resolution No. 1868 for the year 2018, published 31/03/2019, specifying national labor ratio to be observed by non-government entities.

Resolved

Article (1)

Text of Article (5) of resolution No. (1104/Fifth) for the year 2008, aforementioned, is replaced by the following text:

“Non-government entities shall comply with the national labor force ratios indicated in the attached table, according to their economic activity, while the stated upon fees shall be imposed should the entity exceed the non-national labor force ratio exempt of fees. A non-government entity which fails to comply with the indicated ratios shall be charged an additional annual fee of KD (300) per work permit or license issued for a non-Kuwaiti worker upon the request of said entity in excess of the stated upon ratio.

Article (2)

The tables attached to Council of Ministers Resolution No. (1104/Fifth) for the year 2008, aforementioned, are replaced by the table herewith attached.

Article (3)

The Ministers – each as competent – shall enforce this resolution, and it shall be published in the official gazette and enter effect six months from date of publication.

The Prime Minister
Jaber Mubarak Al-Hamad Al-Sabah

Issued in Seif Palace on: 3 Jumada I, 1440 A.H.
Corresponding to: 9 January, 2019 A.D.
Published in the official state gazette, Kuwait Al-Youm,
issue No. 1438, Sixty-fifth year.
Sunday: 24 Rajab, 1440 A.H.
Corresponding to: 31 March 2019 A.D.

26-Circular concerning national labor force ratio in exchange companies.

- k) Correction on Council of Ministers Resolution No. 1868 for the year 2018, published 31/03/2019, specifying national labor ratio to be observed by non-government entities.

Ratios Table

Serial No.	Economic Activity	Ratio
1	Agriculture, Agroforestry, Fishing	3%
2	Mining, Quarrying	10%
3	Manufacturing	4%
4	Petrochemicals	30%
5	Electricity, Gas, and Water Supply	5%
6	Construction	4%
7	Wholesale and Retail	5%
8	Consumer Cooperative Societies	15%
9	Land Transport	3%
10	Water Transport	7%
11	Air Transport	15%
12	Mail and Storage	6%
13	Accommodation	8%
14	Food, Beverages Services	4%
15	Information and Communications (except Communications Companies)	10%
16	Communications Companies	65%
17	Financing and Investment	40%
18	Banks	70%
19	Insurance	22%
20	Exchange	15%
21	Real Estate Activity	20%
22	Vocational, Scientific, and Technical Activities	8%
23	Administrative and Support Services	10%
24	Servicing Buildings and Landscaping	3%
25	Private Education (Arabic)	10%
26	Private Education (foreign)	7%
27	Higher Education (private universities and institutes)	30%
28	Human Health	8%
29	Social Work	10%
30	Arts, Entertainment, and other Personal Services	3%

26-Circular concerning national labor force ratio in exchange companies.

- k) Correction on Council of Ministers Resolution No. 1868 for the year 2018, published 31/03/2019, specifying national labor ratio to be observed by non-government entities.

THE MANAGER

5 Thu Al-Hijjah 1440 H
6 August 2019

The General Manager,

With reference to the Central Bank of Kuwait Circular dated 04/03/2019 concerning Council of Ministers Resolution No. 1868 for the year 2018 concerning the specification of ratio of national labor in non-government entities, which raised said ratio for exchange companies from (13%) to (15%), taking into account the amendment to said resolution which was published in the official state gazette on 31/03/2019, and that it shall enter effect as of 30/09/2019 (six months from date of publication in the official gazette),

Your company is required to present the statement showing development in national labor ratios on bi-annual basis, as required virtue of the CBK circular in this regard. The statement should also be presented for the date indicated for compliance with Council of Ministers Resolution No. 1868 for the year 2018, indicated above, (30/09/2019), within a maximum of five business days of said date.

Best regards,

Manager, On-Site Supervision Department
Abdulhameed D. Al-Awadh

26- Circular concerning national labor force ratio in exchange companies.

1) Circular to exchange companies concerning compliance with the requirement of submission of the statement indicating development of national labor ratio on bi-annual basis.

THE EXECUTIVE DIRECTOR

*25 Thu Al-Qe'da 1429
23 November 2008*

The General Manager,

Circular to All Banks, Investment Companies, and Exchange Companies

Attached is a letter from the Governor of the Central Bank of Syria concerning issue of a circular to all banks operating in the Syrian Arab Republic with instructions not to execute any incoming foreign money transfers from an exchange company, except under specific conditions, with the aim of curbing the activity of natural and legal persons engaged in money exchange illegally, and underlining the necessity of limiting the practice of such activity to licensed companies, in harmony with the money exchange rules and regulations in effect, and in the public's best interest.

You are required to take the necessary action in this respect.

Best regards,

**Executive Director, Supervision Sector
Dr. Mohammad Y. Al-Hashel**

27- Circular with attached letter from Governor of the Central Bank of Syria concerning issue of a circular to all banks operating in the Syrian Arab Republic with instructions not to execute any incoming foreign money transfers from an exchange company except under specific conditions.

**His Excellency Sheikh Salem Abdelaziz Saud Al-Sabah
Governor of the Central Bank of Kuwait**

Dear Sir/Greetings,

Based upon the provisions of Law No. 23 for the year 2002, and most specifically Article 2/106/b and Law No. 24 for the year 2006 concerning licensing of exchange institutions and its executive instructions,

Aiming to curb the activity of natural and legal persons engaged in money exchange illegally, and in view of the necessity of limiting the practice of such activity to licensed companies, in harmony with money exchange rules and regulations, and in the public's best interest,

A circular has been issued to all banks operating in the Syrian Arab Republic with instructions not to execute any foreign money transfer (Hawala) from a foreign exchange company outside of the following circumstances:

- 1- The value of the outward sums is settled through licensed banks and through one of the means of payment specified by Exchange Office committee instructions No. 462 dated 26/11/2006.
- 2- The Hawala sum is incoming and is for a duly licensed Syrian exchange company.
- 3- The overall value of incoming Hawalas for one beneficiary does not exceed USD 10,000 a month.

Please peruse and advise exchange companies, institutions in your country that it is vital these procedures are observed.

We look forward to continuous cooperation and coordination for the best interest of our two countries, and wish you the best of health and your prestigious bank continued progress and success.

With regards and gratitude,

**Damascus, on 12/11/2008
Dr. Adib Mayalah**

27- Circular with attached letter from Governor of the Central Bank of Syria concerning issue of a circular to all banks operating in the Syrian Arab Republic with instructions not to execute any incoming foreign money transfers from an exchange company except under specific conditions.

THE EXECUTIVE DIRECTOR

*10 Thu Al-Qe'dah 1431
18 October 2010*

The General Manager,

“Circular to all exchange companies”

It has been recently noticed that some exchange companies are providing money transfer services to customers via the internet using K-NET bankcards without obtaining prior approval from the Central Bank of Kuwait (CBK) on offering said services.

Be advised that the CBK does not approve of offer of such service, and exchange companies currently providing it must discontinue it immediately.⁽¹⁾ Should an exchange company continue to provide mentioned services, it shall be subject to measures in light of provisions of Article (85) of law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business and its amendments.

Best Regards

**Executive Director, Supervision Sector
Yousef J. Alobaid**

(1) The circular was issued dated 15/08/2011, listed under item (33) of this chapter concerning the technical controls required for exchange companies to provide money transfer service to customers using bank cards via the internet.

28- Circular indicating Central Bank of Kuwait's objection to exchange companies offering money transfer services to customers through the internet using K-NET bank cards without obtaining prior CBK approval.

THE EXECUTIVE DIRECTOR

15 Ramadhan 1432
15 August 2011

The General Manager,

**Circular to all exchange companies
Concerning provision of money transfer service
to customers through the internet
using bankcards**

Further to the Central Bank of Kuwait (CBK) circular to all exchange companies dated 18/10/2010 concerning exchange companies' request for approval to provide money transfer service to customers through the internet using bank cards, this is to stress that a company wishing to provide such service must apply for CBK approval after a visual presentation in the test environment to ascertain said company **satisfies the following technical requirements:**

- 1- The company must have documentation for all aspects related to execution of such transactions, and the initial registration to request the service must be at company headquarters in the presence of the customer or his legal representative, or the presence of three company officials at the customers' headquarters. Customer information must also be verified (Kuwait-issued civil ID, and the bankcards used for the transactions). The company must provide the customer with a temporary password to access the system for the first time, which must be changed later by the customer.
- 2- The company must apply Two-Factor Authentication (2-FA) to protect customers against fake websites or what is called (phishing) through protecting access to the account by two passwords and a pre-selected question and entering the pin code after verifying both an image and a phrase pre-set by the client to ascertain the website to be accessed is indeed the company's website.
- 3- The system must not allow the addition of a new bank card other than that previously registered by the company, nor the addition of a new beneficiary for any transfer except after the registration of the new card/beneficiary's information by the customer or his legal representative at company headquarters, or by three company officials at the customer's headquarters (and the company is to maintain documentation as proof of either case), so that the system only allows repeat transactions with different sums for transfers already processed through the company, with the entry of the bank card's pin code and expiry date.

29- Circular concerning the technical requirements to be satisfied by exchange companies when providing money transfer service to customers through the internet using bankcards.

- 4- The company must provide the necessary protection for all systems in use and stay abreast of international standards in effect in this respect, and this includes data encryption as well as protection against hacking (Firewall systems), in addition to providing necessary privacy conditions at locations where the automated system is operated in the company.

Best Regards,

Executive Director, Supervision Sector
Yousef J. Alobaid

THE EXECUTIVE DIRECTOR

17 Jumada I 1432
20 April 2011

The General Manager,

“Circular to all exchange companies” ⁽¹⁾

In light of request by some exchange companies for Central Bank of Kuwait (CBK) approval on provision of a banking unit service via a mobile vehicle, the bank shall grant approval on such service, provided that the following requirements are satisfied:

- The company shall acquire CBK approval prior to offering the service.
- The company's capital is increased by KD 150,000 per vehicle, which is considered a bank branch, as with opening of new company branches virtue of the circular issued to all exchange companies on 28/09/1998 concerning the requirements and standards for exchange companies branches.
- The vehicle design must allow for secure and easy service of customers and simultaneously provide sufficient protection for the cash and the devices used in the vehicle. Round-the-clock satellite tracking of the vehicle must be maintained and necessary measures towards that end must be taken. The company must also have comprehensive insurance cover for the vehicle and all its transactions.
- The company is wholly accountable for any scam, fraud, theft, and robbery that affects the vehicle in a manner that guarantees customers' rights.
- Technical/IT connection must be maintained between the locations where the mobile units extends its services and company headquarters through mobile computer devices in the vehicle, in order to obtain necessary information on customers.
- While offering the service, the company complies with all CBK instructions and controls, most specifically instructions concerning the countering of money laundering and funding of terrorism.
- The mobile unit must be equipped with a K-NET device, and allow for cash payment by customers.

(1) circular 2/SE/420/2018 listed under item 36 of this chapter was issued to all exchange companies concerning provision of banking services via mobile vehicles.

30- Circular concerning the technical requirements to be satisfied by exchange companies when providing a mobile vehicle banking unit service.

- The customers must be given service receipts which indicate information on the vehicle, time and place where the customer was served, as well as the name and signature of the employees who executed the service.
- The number of approved vehicles must be indicated within the company's sub-register in the CBK exchange companies register, where the vehicle listing application indicates the basic information; (license plate number), model, and manufacturer. The CBK must be notified of any change to the above.

As for requests by some exchange companies for CBK approval to offer a service whereby company representatives provide money transfer service to customers at their own residence or place of employment, the CBK does not approve of such service being provided by an exchange company.

Best regards

**Executive Director, Supervision Sector
Yousef J. Alobaid**

THE DEPUTY GOVERNOR

15 Rabi' I, 1433

8 February 2012

The General Manager,

**Important and Urgent
Circular**

(2/BS/IBS/IS/IIS/FS/IFS/ES/280/2012)

“to all local banks, investment companies, and exchange companies”

It has come to CBK's attention that CBK-regulated bodies and other entities had recently received phone calls from unknown parties impersonating CBK officials and staff.

The CBK thus urges all regulated entities to maintain caution and verify the identity of callers before engaging in any transactions with them of whatever sort.

With my best regards,

**Deputy Governor
Dr. Mohammad Y. Al-Hashel**

31- Circular (2/BS/IBS/IS/IIS/FS/IFS/ES/280/2012) urging caution and verification of the identity of any callers before engaging in any interaction with or processing a transaction for them.

THE DEPUTY GOVERNOR

18 Rajab, 1433
21 June 2012

The General Manager,

“Circular to all exchange companies”

In line with Central Bank of Kuwait (CBK) measures towards regulating the process of opening bank accounts for exchange companies with local banks, and after deliberation with Kuwait Banking Association (KBA) to formalize an appropriate vision for a mechanism for opening these accounts in a manner that guarantees continued cooperation by banks without burdening the latter in terms of managing these accounts, and also taking into consideration that the mechanism to open and run these accounts should aid exchange companies in providing their services to customers and in operating without impediments, exchange companies shall observe the following in this regard:

- 1- Exchange companies shall open (designate) one main bank account for each company with one of the local banks, to be used mainly for cash deposits and withdrawals. This account may be used for other transactions for the company, if it so wishes.
- 2- Exchange companies may also open other bank accounts with any local bank, other than the main account mentioned above, to facilitate its other banking transactions, provided it is not used for any cash deposits or withdrawals.
- 3- Exchange companies with four branches or more (other than headquarters) must acquire the service of Cash-in-Transit (CIT) companies when making cash deposits or withdrawals on its main bank account.

With my best regards,

**Deputy Governor
Yousef J. Alobaid**

THE GOVERNOR

24 Thu Al-Qe'dah, 1433
10 October 2012

The General Manager,

**“Circular No. (2/ES/293/2012) to all exchange companies”
On requirement to notify the CBK
of any embezzlements of company funds**

Aiming to formulate a mechanism to follow up on any cases of embezzlement against your company by members of your staff, your company is required to take the following measures:

- Take whatever measures necessary towards strengthening internal supervision systems of the company immediately, sufficient to deter such crime.
- Notify the CBK immediately of any case of embezzlement of company funds by a company employee, whether the case had been reported to the Public Prosecution or it had been decided measures taken by the company following the incident were sufficient. The CBK is also presented with a copy of the civil ID of the employee who committed the embezzlement.
- Where a case of embezzlement is reported to the Public Prosecution, the CBK On-Site Supervision Department shall be notified of the findings immediately upon conclusion of investigation, as well as of the judgement issued in this respect (attaching a copy of the judgement.)

With my best regards,

Dr. Mohammad Y. Al-Hashel
The Governor

THE GOVERNOR

29 Muharram, 1434
13 December 2012

The General Manager,

**Circular No. (2/ES/294/2012)
to all exchange companies concerning the requirement
to obtain prior CBK approval before communicating
with financial or banking supervision bodies in other countries**

please be informed that your company is required to obtain prior approval from the Central Bank of Kuwait (CBK) before engaging in any communication with financial or banking supervisory bodies in other countries concerning any company plans or activities abroad.

Also note that these plans or activities include the acquisition or increase of a share in a company's capital, the founding of a subsidiary or associate company, change in company capital or opening of branches, as well as expansion in an activity and initiation of a new activity, and the company is to notify the CBK of results of any such communication immediately.

With my best regards,

Dr. Mohammad Y. Al-Hashel
The Governor

THE GOVERNOR

27 Thu Al-Qe'dah 1435
21 October 2014

The Chairman of the Board of Directors,

Instructions (2/BS/IBS/FS/IFS/ES/340/2014) to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision concerning the regulating of buying, sale, and disposal of own shares

Be informed that the Central Bank of Kuwait (CBK) board had in its session convened 21/10/2014 decided to issue instructions to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision, be they banks, financing companies, and exchange companies concerning the regulating of their purchase, sale, or disposal of their own shares. A copy of the instructions is herewith attached, and they are binding as of date of issue and all previous instructions issued in this respect are hereby rescinded.

Furthermore, you are to forward a copy of these instructions to the External Auditors of your accounts and coordinate with them regarding compliance.

With my best regards,

Dr. Mohammad Y. Al-Hashel
The Governor,

Instructions (2/BS/IBS/FS/IFS/ES/340/2014) to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision concerning the regulating of buying, sale, and disposal of own shares

Introduction:

These instructions are based on law No. 32/1968 concerning Currency, the Central Bank of Kuwait, and the Organization of Banking Business and its amendments, decree by law No. (25) for the year 2012 on issue of companies law and its amendment, Capital Markets Authority instructions concerning the regulation of purchase, use and disposal by shareholding companies of their own shares (treasury shares) issued 30/12/2013 which excluded shareholding companies that are listed with Kuwait Stock Exchange and regulated by the Central Bank of Kuwait (CBK). The following is a review of the restraints to be complied with by any entity subject to CBK supervision when trading in their own shares.

First: Definitions:

For the purpose of implementing these instructions, the expressions and phrases below are taken to mean what is indicated:

Treasury Shares: the CBK-regulated body's shares on which it engages in transactions through sale, purchase, or other means of disposal at the stock exchange in line with the guidelines indicated in these instructions.

Reserves:

Reserves established (obligatory and provisional)

Treasury shares reserves:

The profit and loss balance resulting from transactions with treasury shares.

The central bank:

the Central Bank of Kuwait (CBK).

The authority:

The Capital Markets Authority (CMA).

The stock exchange/bourse:

Kuwait Stock Exchange (KSE).

Regulated bodies:

Shareholding companies that are listed in Kuwait Stock Exchange and subject to the supervision of the Central Bank of Kuwait, including banks, financing companies, and exchange companies.

Financial quarterly periods:

Every three calendar months ending on 31/3, 30/6, 30/9, and 31/12 of each year.

Second: Scope of implementation:

These instructions apply to all shareholding companies that are listed in Kuwait Stock Exchange and subject to the supervision of the Central Bank of Kuwait.

Third: procedures and guidelines for CBK-regulated companies obtaining prior central bank approval to engage in transactions on their own shares:

- 1) The company's Articles of Partnership or Corporation Charter must state that it is permissible to purchase, sell, or otherwise dispose of own shares, and a resolution must also be issued by the Shareholders General Assembly authorizing the board to purchase or sell treasury shares not exceeding 10% of share capital and paid capital, where the authorization validity does not exceed a period of 18 months.
- 2) Regulated bodies wanting to purchase, sell, or otherwise dispose of own shares within the framework of these instructions must present an application to the central bank which includes the following information:
 - The number of shares to be purchased, sold, or disposed of.
 - The sources of financing for the purchase, as indicated in the body's latest approved financial statements, provided they do not go back further than six months.
 - The justification and purpose for opting to use share buy-back right, and the effect of that on the company's financial position.
 - The effect that would result on the capital adequacy ratio and on liquidity where banks are concerned and in line with current instructions.
 - A statement indicating the number and value of shares purchase, sold, or otherwise disposed of (consolidated level) during the period of a previous CBK-approval, if any, to be presented at the time of application.
 - The period during which the shares bought back virtue of the central bank's approval are expected to be sold.

Fourth: follow up and use of approvals:

Regulated bodies shall comply with the following:

- 1) A CBK-approval issued to any regulated body in this respect is valid for a maximum of six months as of date of notification of the regulated body of said approval.

- 2) A statement is to be presented, prepared on quarterly financial periods to indicate the number and value of shares purchased, sold, or otherwise disposed of, using the form attached (consolidated level) within a maximum of ten business days as of end of last quarterly period statement.
- 3) There may not be any dealing in shares subject to these instructions after expiry of validity of the central bank's approval issued in this respect.
- 4) Regulated bodies may not deal in own shares, subject to these instructions, before the lapse of ten days as of end of the quarterly financial periods and till the financial statement are approved by the central bank and the approval disclosure is reported at the stock exchange.
- 5) Regulated bodies must, upon obtaining central bank approval, make the necessary stock exchange disclosure procedures and comply with any other binding controls or instructions.
- 6) Regulated bodies must avoid conflict of interest or abuse of insider information when dealing in own shares.

Fifth: Use of treasury shares:

Purposes for which treasury shares subject to mentioned controls and instructions may be used:

- 1) Maintaining price stability of the regulated body
- 2) Reducing paid capital of the regulated body
- 3) Settling another party's debt owed to the regulated body in exchange for the shares, without infringement of provision of article 66/C of Law No. 32 of 1968 and its amendments.
- 4) Settling a standing debt the regulated body owes another party.
- 5) Distributing shares to the shareholders, without resulting in increase of capital or increase in number of outstanding shares, after obtaining approval to that effect from the Shareholders General Assembly and in line with the assembly-approved guidelines.
- 6) Swapping shares in case of acquisitions or full-mergers involving the company, with prior CBK approval.
- 7) Distributing all or part of own shares to staff who opt for the Employee Stock Option, after obtaining an approval to that effect from the Shareholders General Assembly and in line with the assembly-approved guidelines and also in line with the guidelines in effect at the stock exchange for the transfer of ownership.

35-Instructions (2/BS/IBS/FS/IFS/ES/340/2014) to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision concerning the regulating of buying, sale, and disposal of own shares.

- 8) Any other purpose indicated in relevant laws and ministerial decisions, or specified by the central bank in the future.

Sixth: provisions to be complied with by the regulated body throughout the duration of its possession of a portion of its shares:

- 1) Regulated bodies (on the level of the parent company and its subsidiaries) may purchase or sell a maximum of 10% of its share capital and of paid capital, provided that the volume of sums used in the financing does not exceed the total provisional balances (optional and compulsory) and deferred earnings and issue premium, after obtaining written prior approval from the central bank.
- 2) Regulated bodies may not use capital as a source to finance transactions to purchase own shares.
- 3) Treasury shares are not included in the total regulated body shares when counting quorum required for a vote on decisions in the Shareholders General Assembly, nor treasury shares property of subsidiaries of the parent company.
- 4) In cases of increasing capital of a regulated body through issue of bonus shares, the regulated body has the same rights as other owners of treasury shares.
- 5) In cases of increasing capital of a regulated body through floating of new shares for subscription, the regulated body may not exercise Priority Subscription Right resultant from share ownership, while it may, as an exception and subject to the approval of its General Assembly, sell its right or forego priority subscription right through the stock exchange/bourse.
- 6) Treasury shares may not be used as a security, under any circumstances.
- 7) Treasury shares may not be traded outside of the stock exchange/bourse except as part of the Employee Stock Option scheme and without infringement of the transfer of property guidelines in effect.
- 8) Treasury shares may not be traded through investment portfolios managed for the benefit of the regulated body.
- 9) All bonds/Sukuk that could be converted into shares, issued by the regulated body and listed in subsidiary companies' records, must be disclosed within the quarterly statement that indicates the number and value of treasury shares purchased or disposed of (on consolidated level). And should these bonds/Sukuk be converted into shares, the percentage of the bonds/Sukuk and treasury shares must not exceed 10% of the paid capital and share capital of the regulated body (parent company).

35-Instructions (2/BS/IBS/FS/IFS/ES/340/2014) to all shareholding companies listed with Kuwait Stock Exchange and subject to CBK supervision concerning the regulating of buying, sale, and disposal of own shares.

Seventh: disclosures in financial statements and accounting treatment:

1) Accounting treatment:

- Compliance is required with provisions of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) concerning accounting methods for processing all transactions on treasury shares and how to list and disclose these in financial statements.
- A sum from the reserves (optional and obligatory) and deferred earnings and issue premium is frozen which is equal to the cost of treasury shares and is deemed non-distributable throughout the period of ownership of said shares. This sum may only be used (respectively) to offset any losses that may result from sale of these shares, without affecting capital or business outcomes.
- An account is set up under the title “Treasury Share Reserve” under the Stockholder Equity item, which is deemed un-distributable and onto which profit and loss resulting from sale of these shares are to be registered, in proportion to its credit balance.
- Any loss (resulting from sale) that exceeds the balance of treasury shares reserve is debited from deferred earnings, then reserves, and then from issue premium, in that order. If profit is realized at a later point in time, a portion of it that equals the loss previously deducted from said balances is re-deposited in the following order of priority: (issue premium, reserves, deferred earnings) while the remainder is listed in the treasury shares reserve account.
- The regulated body may transfer the credit balance of the treasury shares reserve account to either the optional or obligatory reserves in the event of liquidating treasury shares balance and making profit, after obtaining prior written approval from the Central Bank of Kuwait in this regard.
- No cash dividends may be distributed on treasury shares listed in the records.
- The value of bonus share distributions is not added to the cost of purchasing these shares which are listed in the records at the time of approval of the distributions, and the number of treasury shares is adjusted in view of the number of bonus shares obtained, which would result in reduction of cost of purchasing the shares.

2) Minimum for what is disclosed in the supplementary notes to the financial statements:

- The number of treasury shares bought as well as both cost of purchase and market value at the date of preparation of the financial statements.
- The balance of the treasury shares reserve listed under shareholders equity.
- The percentage of treasury shares to total of shares issued.
- Share's weighted average market value in the last financial period.
- The frozen portion of reserves (optional and obligatory), deferred earnings, and issue premium which is equal to the cost of bought treasury shares, which is to be clearly stressed as non-distributable.
- The guidelines of the employees' stock bonus scheme that is approved by the Shareholder General Assembly, if any.

3) Where treasury shares are used to reduce capital, the regulated body is required to obtain prior central bank approval, granted in view of an independent study presented for that purpose, and the capital is reduced by the nominal value of the shares used in this decrease.

Eighth: These instructions enter effect as of date of issue, and all preceding instructions in this respect are voided.

THE EXECUTIVE DIRECTOR

29 Thu Al-Hijjah 1439
9 September 2018

The Chairman of the Board of Directors,

**Circular (2/ES/420/2018) to all exchange companies
concerning the provision of exchange services through mobile vehicles**

With reference to the CBK circular to exchange companies dated 20/04/2011 concerning the provision of exchange unit services through a mobile vehicle,

Be informed that the regulations in this respect are hereby amended so that you are required, as of date of this circular, to obtain initial CBK approval, after which you are to apply to all concerned authorities for required permits and then complete registration procedures at the CBK, in line with the following:

First: An exchange company wishing to offer exchange unit services through a mobile vehicle is to **apply for initial CBK approval** for such services which is valid for six months from date of issue. To obtain said approval, the following is to be observed:

- The company must satisfy all capital requirements as per CBK guidelines.
- The vehicle, with all its transactions and all its contents, must have full insurance coverage and the company remains accountable for all the safety and security measures involved in a manner that upholds customers' rights.
- Technical/IT connection must be maintained between the locations where the mobile units extends its services and company headquarters through mobile computer devices in the vehicle, in order to obtain necessary information on customers.
- While offering the service, the company complies with all CBK instructions and controls, most specifically instructions concerning the countering of money laundering and funding of terrorism.
- The mobile unit must be equipped with a K-NET device, and allow for cash payment by customers.
- The customers must be given service receipts which indicate information on the vehicle, time and place where the customer was served, as well as the name and signature of the employee who executed the service.

Second: After obtaining abovementioned initial approval, the company obtains Kuwait Municipality permit according to the latter's system regarding use of the locations where the vehicle is to be stationed, the duration of its presence, as well as the type of Tracking System used on the vehicle.

Third: After obtaining abovementioned initial approval, the company obtains permits from the Interior Ministry's General Traffic Department, while satisfying the following security requirements:

- The vehicle's security features and attached fittings/equipment as well as exterior design must be in line with the specifications of the committee concerned with guidelines for issue of licenses to practice business activity at the Interior Ministry.
- Security monitoring must be provided for the vehicle at any location where it is to be present, and care must be taken that traffic is not obstructed.
- Compliance is to be maintained with provisions of Law No. (61) for the year 2015 concerning regulating and installing monitoring cameras and devices onto vehicle interior or exterior as a security requirement in view of valuable assets that the vehicle contains/transport.
- At time of start of validity of the permit, maximum for years lapsed since manufacturing of the vehicle is three years, and duration of permit validity must not exceed 10 years as of year of manufacture.
- Office equipment is to be installed securely to prevent shifting while the vehicle is in motion.
- The vehicle may not carry passengers while in motion, other than the driver and the passengers in the front compartment.
- The company complies with the locations and spaces specified by Kuwait Municipality and the General Traffic Department, and the vehicle is fitted with a tracking system, which is connected to the Interior Ministry companies operations room, as well as a Global Positioning System (GPS).
- The safe/cashbox in transit must be fitted with special ink that destroys content in case it is forced open and also with special seals locks to protect against it being forced open.
- Direct connections must be maintained between the vehicle and the Interior Ministry, and time schedules for transport of money are to be reported to the latter for the purpose of monitoring to prevent burglary and other crimes.

- The mobile vehicle is fitted with monitoring cameras that save recordings for more than 48 hours at least in the event of burglary or theft. Employees in the vehicle must pass special courses on dealing with a burglary situation.
- Compliance is to be maintained with the opening and closing times of commercial complexes/malls.
- The security department responsible for a specific location is provided with the information on the vehicle/vehicles to be present at said location and their precise position, for the purpose of providing monitoring and protections.
- The vehicle must satisfy the security and durability specifications and requirements issued by the Ministry of Interior at the time of obtaining license, which are as follows:
 - The vehicle must have full armor against 7.62 mm caliber rounds at least.
 - The vehicle must be fitted with caged windows/mesh wire glass to protect the main compartment.
 - The vehicle is fitted with extra front and rear bumpers to protect against collisions.
 - The vehicle is fitted with special locks to securely lock both the vehicle and the cash compartment.
 - The vehicle is fitted with emergency flashing lights (amber/yellow), installed on the roof of the vehicle, provided this does not infringe upon other security regulations.
 - The vehicle is fitted with alternative communication systems, such as wireless handheld transceivers.
 - The vehicle is fitted with safety and emergency equipment such as (fire extinguisher – First Aid kit – Warning Triangle – different flash lights – and siren/sound systems to alert to an emergency situation and need for backup).

Fourth: After the company satisfies all abovementioned requirements, it applies for registration of the vehicle in the **CBK exchange companies sub-register**, where the following is attached to the registration application:

- 1- Proof the vehicle has insurance coverage according to item First above.
- 2- Document stating that the vehicle satisfies all requirements mentioned above.
- 3- Proof of licensing of operation of the concerned vehicle by Kuwait Municipality and by the Interior Ministry's General Traffic Department.

No activity may be carried out via such mobile vehicles before completing procedures for its registration at the Central Bank of Kuwait (CBK) and the company obtaining documents to prove so.

Best Regards,

Executive Director, Supervision Sector
Waleed M. Al-Awadhi

THE GOVERNOR

*Muharram 13, 1440 H
December 23, 2018*

**Circular No. (2/BS, BS, IBS/415/2018)
To all Local Banks, Exchange Companies and Financing/Investment
Companies regarding Instructions for Regulation of the Electronic
Payment of Funds**

The Chairman of the Board of Directors,

Dear Sir,

In light of the Law No. 20 of 2014 for the electronic transactions that entrusted the Central Bank of Kuwait with the full powers and authority of oversight over, and regulation of, the electronic payment of funds in addition to promulgation of the relevant binding instructions, and taking into consideration the fast growing usage of modern technology and channels of electronic payment and the commensurate keenness of the Central Bank of Kuwait to introduce the regulatory and organizational frameworks to benefit from such technologies in the field of electronic payment of funds, the Board of Directors of the Central Bank of Kuwait issued its decision No. (44/430/2018) regarding the instructions for regulating the electronic payment of funds.

The aforesaid instructions provide for the requirements to be fulfilled by companies and institutions to be enrolled in “Register of Operators and their Agents” with the Central Bank of Kuwait, and covered the obligations of the operators of the electronic payment of funds and their agents. It should be noted that in accordance with Article (3) of the aforesaid instructions, all operators and their agents, who were active prior to implementation of these instructions, should regularize their situations as per the rules and regulations stated in the aforesaid instructions within 12 months from effective date thereof.

We enclose herewith a copy of the decisions no. (44/430/2018) regarding the instructions for regulating the electronic payment of funds.

With my best wishes,

**Dr. Mohammad Y. Al-Hashel
The Governor**

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

- a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Central Bank of Kuwait
Resolution No. 44/430 of 2018 Promulgating
Instructions for Regulating the Electronic
Payment of Funds

Central Bank of Kuwait
Resolution No. 44/430 of 2018 Promulgating Instructions for Regulating the Electronic Payment of Funds

The Board of Directors of the Central Bank of Kuwait

Having perused,

The Law No. 32 of 1968 Concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business, and its amending laws,

The Law No. 106 of 2013 Concerning the Combat of Money Laundering and Financing of Terrorism, amended by Law No. 24 of 2016,

The Law No. 20 of 2014 Concerning Electronic Transactions,

The Kuwait Companies Law issued by virtue of Law No. 1 of 2016, amended by Law No. 15 of 2017, and

The approval of the Board of Directors of the Central Bank of Kuwait passed in its meeting held on 11.06.2018,

Resolved

Article One

Provisions of the Instructions for Regulating the Electronic Payment of Funds, attached herewith, shall come into force and applied accordingly.

Article Two

All concerned entities and departments, each within its respective field of competence, shall implement this Resolution and abide by its provisions.

Article Three

This Resolution shall be published in the Official Gazette and shall come into force as of the date of its publication.

Dr. Mohammad Y. Al-Hashel

The Governor

The Chairman of the Board of Directors of the Central Bank of Kuwait

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

- a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Instructions for Regulating the Electronic Payment of Funds
Chapter One
“Definitions”

Article (1)

In application of these Instructions, the following words, terms and expressions shall have the meanings, respectively, ascribed to them below:

Instructions	: Instructions for Regulating the Electronic Payment of Funds.
The Central Bank of Kuwait	: Central Bank of Kuwait
Activity	: Electronic payment and settlement systems.
Register	: The Central Bank of Kuwait Register of Electronic Payment Infrastructure Providers and their Electronic Payment Agents.
Registration	: Enrollment in the Register.
Company	: A shareholding or a limited liability company.
Financial institution	: The bank, financing company, investment company (financing activity) or exchange company, which are subject to the Central Bank of Kuwait supervision, or any institution authorized to make cash transfers or electronic payments in accordance with the provisions of the applicable laws.
Electronic Payment Infrastructure Provider (EPIP)	: Any financial institution that takes the form of a shareholding company, and has been listed in the Central Bank of Kuwait register to perform all or part of the operations of electronic payment and settlement systems, provision of service or any other related services, provided the final settlement is made through the local banks.
Electronic Payment Agents (EPA)	: Any financial institution that takes the form of a shareholding company or limited liability company, and has been listed in the Central Bank of Kuwait register to practice all or part of the activities on behalf of the Electronic Payment Infrastructure Provider.
Participant	: Any party, who is allowed, under the rules of the Electronic Payment and Settlement System, to exchange payments, or process settlements through the system.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- Customer** : The beneficiary of the services provided by the Electronic Payment Infrastructure Provider or its Electronic Payment EPAs.
- Electronic Money** : A value that has cash equivalent stored in an electronic device or a plastic card or automated system.
- Settlement** : The process of fulfilling obligations by transferring funds between two or more parties.
- Electronic Payment and Settlement System** : An electronic system consisting of a set of means and procedures for payment and settlement of funds to fulfill obligations through the transfer of funds between two or more parties, where its operation is conducted through the execution of electronic processes represented in any transaction or agreement concluded or carried out, in whole or in part, by electronic means and correspondences.
- Activity Services** : Any service that enables money withdrawal and deposit or processing of payment and settlement transactions through the electronic payment channels such as Automated Teller Machines (ATMs), Point of Sale (POS) devices and any service for transfer or issuing of funds, and/or obtaining means of electronic payment.
- Means of Electronic Payment** : Any tangible or intangible mean that enables an individual to obtain money, goods, services, assets or benefits, or to perform electronic payment or e-transfer of funds (e.g. prepaid cards issued in the State of Kuwait, stored-value accounts, which are replenished with equivalent amounts and paid upon request).
- Financial Technologies (Fintech)** : New technologies that relate to the financial industry, and aim to improve and develop financial activities including the launch of advanced products, services and business models in the financial services industry.
- Regulatory Sandbox** : A safe space that allows for the experimentation of innovative products and services relating to Fintech without incurring the cost of obtaining official licenses. The environment caters for those products and services that are based on, or related to, the electronic payment of funds, and that also require the Central Bank of Kuwait's approval prior to their launch in the market.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Chapter Two Regulation of Activity

Article (2)

A Register shall be created with The Central Bank of Kuwait in which all EIPs and EPAs shall be enrolled, and their main information shall be recorded. The Central Bank of Kuwait shall not be responsible for any false or incorrect statements provided in the Register.

Article (3)

The Activity shall not be practiced without registration by virtue of a decision issued by the Central Bank of Kuwait in coordination with the Ministry of Commerce & Industry, which granted the practice license to the EIP or EPA after the Central Bank of Kuwait 's approval.

All EIPs and EPAs who practiced their activity prior to the implementation of these instructions should regularize their situations as per the rules and regulations stated herewith within (12) months from the date the Instructions came into effect.

Article (4)

For those who are registered as EIPs, practicing the activity shall be limited to shareholding companies whose paid-up capital is not less than KD 1 million. For those who are registered as EPAs, practicing the activity shall be limited to shareholding or limited liability companies whose paid-up capital is not less than 20,000 Kuwaiti Dinars.

The minimum capital may be reduced to KD 10,000, for registered EPAs for companies that met the requirements of joining the Regulatory Sandbox, and have passed required technical tests and experiments under the Regulatory Sandbox Framework issued by the Central Bank of Kuwait.

In all cases, the Central Bank of Kuwait may increase the minimum paid-up capital based on the size and nature of the Activity.

Article (5)

The registration application shall be submitted to the Central Bank of Kuwait along with the following documents and data:

- 1) The unconditional final Letter of Guarantee (LG) issued by a local bank to The Central Bank of Kuwait of the amount of 100,000 Kuwaiti Dinars, valid for 3 years and renewable for similar periods. The Central Bank of Kuwait will assess the need to provide the said LG or to reduce or increase its amount in light of the conditions and solvency of the company, and may obtain this LG from the company at any stage of registration.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- 2) A copy of the company's Articles and Memorandum of Association, and Commercial Register. Companies who are subject to the Central Bank of Kuwait supervision and meet the required capital shall submit a commercial register whose date shall not exceed 3 months prior to the application date.
- 3) The company's ownership structure showing the names of main partners, and the ownership percentage of each.
- 4) Criminal record of Board Members and the Chief Executive Officer, or managers in case of limited liability companies, and the ownership percentage of each.
- 5) The company's strategy and a three-year business plan that is aligned with company's accurately estimated budget.
- 6) Description and feasibility of the Activity, indicating the type of payment services to be provided and payment tools and their conditions.
- 7) Policies and procedures pertaining to the activity, including the following:
 - Procedures manual, an organizational structure and a list of managers' names and identification.
 - The mechanism on which the Activity is based, whether it is an automated payment mechanism, or a settlement mechanism or other mechanisms.
 - Activity rules which will be implemented, including the following:
 - Activity scope.
 - Payment services to be provided to beneficiaries, taking into consideration that they do not conflict with any of the Central Bank of Kuwait's instructions, and are in accordance with the Principles of Financial Market Infrastructures (PFMIs) issued by the Bank for International Settlements.
 - Clear and final settlement of transactions shall be performed through local banks only, as they are the only party allowed to participate in the final settlement mechanisms.
 - The responsibilities of each of the EIPs, EPAs and beneficiaries of payment services.
 - Terms and conditions pertaining to the EIPs and EPAs' receipt, rejection or cancellation of payment orders.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- Risk assessment for the Activity and risk mitigation plan that define the controls and measures in handling risks.
 - The measures and controls to safeguard the Activity, including the disaster recovery plan to ensure business continuity, measures undertaken to ensure proper governance of the Activity, and effective and precise procedures to measure, monitor and control the risks that the Activity is exposed to, and the submission of relevant reports to concerned parties.
 - The measures undertaken to secure and protect electronic processes, and to safeguard and store the data related to the system and Participants to prevent disclosure, misuse, damage, destruction, loss and theft; especially in the case of service interruption at any stage of the electronic process.
 - The undertaken procedures to protect the data pursuant to the relevant laws or any other instructions issued by the Central Bank of Kuwait.
- 8) Description of the measures undertaken that pertain to the risk management system and accounting systems followed by the EPIP including the relevant reporting system.
- 9) Description of the internal control procedures that the EPIP is committed to, including the network of EPAs, if any, including the procedures to be followed as per Law No. 106 of 2013, its Executive Regulations, and relevant ministerial decisions and instructions issued by the Central Bank of Kuwait in this regard.
- 10) Description of the procedure to be applied to ensure that any disputes between EPIPs/EPAs and Customers are resolved, taking into consideration the clarity of the same to ensure effective implementation, as well as the deadline set for Customers to submit their complaint to EPIPs or EPAs, the deadline to respond to the complaint and informing them with their complaint results.

The Central Bank of Kuwait will have the right to request any documents or other data deemed necessary for registration.

EPIPs and EPAs shall have the priority in registration if they meet the requirements to participate in the Regulatory Sandbox and pass the required experimentation and technical tests according to the Regulatory Sandbox Framework Document issued by the Central Bank of Kuwait.

The Central Bank of Kuwait shall issue the resolution of approving or rejection of registration according to the above-mentioned documents and data, and in a way that ensures the stability and integrity of payment and settlement systems in the State of Kuwait. In case of registration, the approved payment means that are to be used will be specified.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Article (6)

The EPIP shall submit an application to the Central Bank of Kuwait to register EPAs in accordance with the procedures stipulated in Article (5) hereof, except for submitting an LG in favor of the Central Bank of Kuwait, and a declaration shall be attached to the application stating the willingness to register and to abide by these instructions once it is registered.

Article (7)

During the Activity, the EPIP shall ensure that the EPA complies with these instructions, and the Central Bank of Kuwait instructions, standards and policies related to supervision and oversight of the Activity, as well as the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) requirements.

In addition, the EPIP shall notify the Central Bank of Kuwait upon cancellation of any of the EPAs in its EPAs network, or any amendments made to the EPA's status or the instructions regulating them, within one week from the date of cancellation or amendment.

In all cases, the EPIP shall be responsible for all activities and actions performed by any EPA to whom it has assigned its work, whether wholly or partially.

Chapter Three

Carrying out Activity Services and Confidentiality of Information

Article (8)

EIPs and EPAs shall comply with the following:

- 1) Executing payment orders properly in accordance with the Customer's documented orders and the rules of the payment system; otherwise EIPs and EPAs shall be fully responsible towards the Customer and shall directly refund the amounts in full as per the payment order.
- 2) Upon receipt of the payment order, the amount shall be deducted from the Customer's account and credited to the beneficiary account on the same day, or no later than the end of the next business day.
- 3) In the event that the Customer's payment order is not processed, or delayed in transferring the amounts to the beneficiary's account, both parties shall be notified within a maximum of three days.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- 4) Providing the payer with a copy of the payment order issued in accordance to his request, which may be made electronically, and shall include at least the following data (reference number, amount, date of issuance, due date, beneficiary ID – payment purpose).
- 5) Providing the beneficiary with a copy of the payment order issued in his favor, which may be made electronically, and shall include at least the following data (reference number, date of issuance, due date, payer ID – payment purpose).
- 6) No fees or commissions shall be collected under any title unless the Central Bank of Kuwait approval was obtained, and after providing the supporting documents related to the nature of such fees and commissions and their actual cost. EIPs and EPAs shall announce all fees and commissions charged to Customers for services provided through media channels to ensure their awareness of the same, including communicating at the head office of EIPs and EPAs and through their websites.
- 7) All documents, records and data related to an Activity shall be kept for a period of no less than ten years from the date of termination of contractual relationship between EIPs or EPAs and Customer.
- 8) The Central Bank of Kuwait shall be notified prior to any amendment or addition to the scope of the applicable Activity or provided services. The Central Bank of Kuwait 's written approval shall be obtained before any implementation.

Article (9)

A Customer shall follow the conditions governing the issuance and use of Payment Means, and maintain his own confidential data. A Customer shall bear full responsibility for negligence in maintaining it or delay in reporting loss, theft, and breach of such data or its payment means.

A Customer acting in good faith shall not be liable for any financial losses resulting from the use of confidential data or payment means, having notified the EIP or his EPA of the loss, theft or breach, or any suspicious matters that indicate that he is not the only party who is utilizing the data and the payment means. The EIP and their EPAs are obliged to provide the appropriate channels for such notifications at all times without interruption.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Article (10)

EIPs and their EPAs shall ensure the requirements of information security and strict confidentiality of all transactions related to Customers, and are prohibited from providing any data, directly or indirectly, or disclosing it or allowing third parties to access the same. This prohibition shall remain in effect even if the relationship between them and the Customer is terminated for any reason.

This prohibition applies to all officials at EIPs and EPAs, including Board members, current and former managers and employees, and any contracted third party service providers, and anyone who, by virtue of his job or profession, directly or indirectly, has access to such data and information, including external auditors.

This prohibition does not apply in case of obtaining the written consent from the Customer, his heirs, or whoever legally acts on their behalf, or in the cases where a law allows disclosure of such information and data.

Chapter Four Daily Dealing Limits and Risk Coverage

Article (11)

EIPs who are willing to carry out some of the work through EPAs, should set the total amount limit for the EPA's daily transactions' which are governed by these instructions; provided that such a limit shall be revised a maximum of every six months by monitoring the size of Activity and nature of transactions, in light of the activity on EPAs' accounts and the type of payment services and means used.

Article (12)

EIPs shall ensure that the policies and procedures of their EPAs include all the requirements of Article (5) hereof, and shall be implemented to ensure availability of the following:

- 1) Compliance with the application of the rules of Activity and the levels of service provided to Customers, so as to ensure settlement of transactions in a correct, clear and conclusive manner.
- 2) Proper internal control processes to ensure business integrity and continuity.
- 3) Procedures and measures necessary to ensure the principle of segregation between Customers' and EPAs' funds, so that the Customers' funds are totally segregated from any claims to creditors in the event of bankruptcy, while ensuring the ability of tracking funds at any time.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Article (13)

EIPs must study the size of the risk pertaining to the settlements of funds that are confronted by the EPA to meet their obligations toward their customers. The EPIP must also determine the appropriate amount of guarantees that the EPA has to provide to ensure payment and settlement procedures of electronic payment transactions, including providing a final LG according to Article (11) hereof, if the situation required it, and to provide an insurance policy from a local company estimated based on - the average annual size of EPA's Activity in order to cover resulting operational risk.

Chapter Five Methods of Payment

Article (14)

Subject to the provisions of Article (5) hereof, EIPs and EPAs shall comply with the following:

- 1) Apply to The Central Bank of Kuwait for approval to add payment means that are not previously approved. The payment means shall not be used without obtaining the Central Bank of Kuwait written approval. Priority shall be granted to EIPs and their EPAs to obtain the Central Bank of Kuwait approval once the requirements for participating in the Regulatory Sandbox have been met, and the required experimentations and technical tests are passed in accordance with the Central Bank of Kuwait Regulatory Sandbox Framework Document.
- 2) Apply to the Central Bank of Kuwait for approval of amendment of any conditions that can financially impact the payment means that are already approved. The amendment shall not be effective until the Central Bank of Kuwait's written approval is obtained.
- 3) Notify the Central Bank of Kuwait in writing in the event of suspending any payment means that are already approved.

Article (15)

With regards to electronic payment means, the following should be considered:

- 1) It should not include granting credit, with the exception of credit cards issued by banks, and those authorized by licensed EIPs.
- 2) The cash value stored therein shall be equal to the cash deposited.
- 3) No Customer information or data shall be stored with any unauthorized party as EPIP.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Article (16)

On demand, all prepaid card issuers and those holding stored value accounts shall pay the value of the Electronic Money at the equivalent value, provided that payment is in cash and in the same currency, or as per the agreement between the card issuer and Customer.

Chapter Six Supervision and Control

Article (17)

EIPs and their EPAs shall be subject to the Central Bank of Kuwait 's supervision and oversight. The Central Bank of Kuwait Representatives have the right to visit their premises as part of registration procedures or to conduct periodic visits as part of the supervision and oversight system, after notifying them in writing or by other means.

The Central Bank of Kuwait will also have the right to engage specialized entities to assist them in carrying out some of the supervision and oversight functions over EIPs and EPAs, and such entities will have no obligations towards any third party as a result of performing such tasks.

Article (18)

EIPs and their EPAs shall provide all necessary data and information to the Central Bank of Kuwait for the purposes of supervision, oversight and inspection as per the procedure stated by the Central Bank of Kuwait. EIPs and their EPA shall allow access to all their notes, records, documents and minutes of meetings, and not to take any action that may have a negative impact on the Central Bank of Kuwait 's supervision, oversight and inspection, and to fully cooperate to accomplish the mission.

Article (19)

All prepaid card issuers, stored value accounts holders and any electronic payment card issuer shall provide statistical data about the funds transferred to the cards in their periodic financial statements submitted to the Central Bank of Kuwait.

Article (20)

EIPs shall submit periodic reports, data and information specified by the Central Bank of Kuwait instructions in this regard, and pay the administrative expenses set by The Central Bank of Kuwait.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

Article (21)

The Central Bank of Kuwait is entitled to take the following actions and procedures:

- 1) Access any or all of the systems related to the EPIP or its EPAs, in order to carry out the tasks of supervision, oversight and inspection on the Activity.
- 2) Imposing a procedure for accessing any or all of the systems related to the EPIP or its EPAs to monitor the compliance with the standards and policies of the electronic payment and settlement systems.
- 3) Perform all inspection procedures to ensure access to notes, records and equipment, interviewing employees and EPAs, or any other procedures deemed necessary to carry out supervision and oversight functions on the Activity.
- 4) Prepare and publish consolidated reports containing all data and information obtained hereunder for statistical purposes.

Chapter Seven Restrictions and Penalties

Article (22)

Subject to the provisions of the above Law No. 1 of 2016, in the event that any party carries out the Activity without registration, necessary measures shall be taken by the Central Bank of Kuwait to stop the Activity and that party shall bear all financial and non-financial liabilities, and The Central Bank of Kuwait will bear no liability towards it or towards its EPAs, Customers or third parties.

Article (23)

The EPIP and its EPAs shall abide by these instructions or any other instructions and directives issued by The Central Bank of Kuwait in this regard. In case of violation of any of these instructions or directives, the Central Bank of Kuwait will be entitled to issue a decision in writing imposing conditions or restrictions on them, as follows:

- 1) Send a written warning to the EPIP and its EPAs to take all actions to ensure compliance with these Instructions.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- 2) Issue a written directive to the EPIP and its EPAs that is effective within a specific period including all or some of the following:
 - a) Ceasing to enter any new engagements or contractual business agreements.
 - b) Establishing, amending or cancelling certain rules of the Activity.
 - c) Taking the appropriate measures to carry out certain actions necessary for safeguarding public interest.
 - d) Suspension of any payment activity, in whole or in part, if such activity is deemed to pose a risk to the public interest.

The EPIP and its EPAs, to which any of the written directives stated in item (2), shall notify the Central Bank of Kuwait of execution of these directives once completed and the Central Bank of Kuwait, as the case may be, has the right to change any condition or restriction imposed on EIPs or EPAs, and notify them of this change in writing.

Article (24)

The Central Bank of Kuwait may suspend the registration of the EPIP or its EPAs, in the following events:

- 1) Not practicing the Activity within six months from the date of registration. The concerned persons may, within fifteen days from the date of notifying them of the decision to suspend registration, request extension of the said timeframe to a maximum of six months, provided they must provide the justifications therefor. The Central Bank of Kuwait has the right to accept or reject this request after review thereof.
- 2) If the electronic payment and settlement system is discontinued without providing acceptable justifications.
- 3) If the practices of the EPIP or its EPAs adversely affect the stability and integrity of payment and settlement systems or the financial system in the State of Kuwait.
- 4) Declaring bankruptcy, liquidation or dissolution, cessation of legal personality, or undergoing difficult financial conditions, which are judged as per the Central Bank of Kuwait's discretion.

37- INSTRUCTIONS FOR REGULATION OF THE ELECTRONIC PAYMENT OF FUNDS

a) Circular No. (2/BS, BS, IBS/415/2018) To all Local Banks, Exchange Companies and Financing/Investment Companies regarding Instructions for Regulation of the Electronic Payment of Funds.

- 5) If the EPIP or its EPAs take any actions or procedures that would impede the inspectors' performance of their tasks related to inspection of the activity, or if the inspection reports prove to be repetitive of the same violations of these instructions or any other instructions.
- 6) If it is found that the practices of the EPIP or its EPAs resulted in damages or risks against Customers or the public interest.

In all cases, the Central Bank of Kuwait 's decision to suspend registration shall include the timeframe for taking the necessary actions to pay all obligations due to Customers, and EPIPs shall be notified in writing of the above decision, whether it is related to them or to their EPAs' only, and the Central Bank of Kuwait may announce this decision through any appropriate channel.

Article (25)

The penalties stipulated under Article (85) of Law No. 32 of year 1968 shall be applied to the entities that violate these instructions.

THE GOVERNOR

Safar 11, 1444 H
September 7, 2022

The General Manager,

Greetings,

**Circular to Exchange Companies Regarding Controls and Measures for
Opening New Branches for Exchange Companies**

This has reference to our instructions dated 28/09/1998 concerning controls and measures for opening new branches for exchange companies and the amendments made on 18/05/2006.

We inform you that within the framework of the Central Bank of Kuwait's routine revision of its regulating controls of exchange companies' business, the Central Bank of Kuwait (CBK) has resolved to amend Items "Second, Third, Fourth and Seventh" of the above-mentioned controls and measures as attached herewith. Therefore, all exchange companies are requested to comply with these amendments as of the date hereof. Previous controls and measures on this regard shall be repealed.

Best regards,

Basel Al-Haroon
The Governor

38- Circular to Exchange Companies Regarding Controls and measures for Opening new Branches for Exchange Companies.

Controls and Measures for Opening Branches for Exchange Companies

First: The exchange company shall submit an application to the Ministry of Commerce and Industry, together with a feasibility study for opening the branch. The Ministry shall pass this application to the Central Bank of Kuwait (CBK).

Second: The attached feasibility study should be professional, thorough and precise, show the need for opening the branch applied for as well as specify the area in which the company intends to open a branch, and cover, at least, the following:

- The motives for opening the branch.
- The need of exchange services in the area where the bank is applying to open a branch, and the considerations underlying the selection of the site for the branch.
- The financial projections of the branch including the anticipated business size, business development, establishment cost and operating cost over period of not less than three years.
- The Integration between the systems of the proposed branch and those of the head office.

Third: The minimum fully paid-up capital of an exchange company shall be KD 2 million. The number of branches shall not exceed 13 branches. If a company desires to open more branches, the minimum capital shall be increased to KD 150,000 for each new branch.

Fourth: In case a company's net equity was below KD 2 million due to accumulated losses, the request to open a new branch shall be rejected.

Fifth: If a new company, whose first approved budget and closing accounts not yet issued, requested to open one or more exchange branches, it should submit its financial position statement of at least the first three months of its activity, approved by the auditor.

Sixth: The CBK has the authority to reject a company's request to open a new branch, for any reason in the sole discretion of CBK, including, but not limited to:

- If there is no need to open a new branch, and in the chosen location.
- If the company delays in submitting financial statements.
- If the company violates the applicable rules and resolutions, and the supervisory controls and instructions issued by the CBK.

Seventh: The company willing to open one or more new branches should be administratively and technically qualified to manage these branches, and should provide each new branch with the adequate administrative and technical management taking the following into consideration:

- Deploying an automated system that connects all branches to the head office's systems, applications, and internal control.
- Availability of an internal auditor and an internal audit unit in the exchange company which operates through three or more branches (including the head office).
- Safeguarding all inward and outward money transfers of the exchange companies processed between branches from theft, robbery or embezzlement.
- Contracting with insurance companies to cover cash in vaults against theft, robbery, fire, and breach of trust.

Eighth: If the CBK approves the application of any company, such an approval shall be considered as initial and valid for one year. The respective company shall commence with taking the necessary actions towards opening the branch before the expiry of the said period. If the company does not manage to open the new branch within the fixed period, then the company shall have to apply to the CBK requesting the extension of the approval period, before its expiry date, giving the justifications for extending the period. In the event of non-compliance with this rule, the approval shall be automatically cancelled on its expiry date.

Ninth: When the company completes the preparations for opening the new branch and fixes the opening date, it will submit an application to the CBK requesting amendment of the company's data in the Companies Register to reflect the entry of the new branch in the register at least 15 days before the opening date. This application shall be submitted together with the following:

- A copy of the approved license from the Ministry of Commerce and Industry.
- Names, experiences and qualifications of key position occupants.
- Evidences proving that the company had increased its capital, if necessary, as per the requirements of Item (Third) of these regulations and standards.

Tenth: Business at any new branch should not commence before registering the new branch in the Companies Register with the CBK.