Bahrain

This report analyses the implementation of the AEOI Standard in Bahrain with respect to the requirements of the AEOI Terms of Reference. It assesses both the legal frameworks put in place to implement the AEOI Standard and the effectiveness of the implementation of the AEOI Standard in practice.

The methodology used for the peer reviews and that therefore underpins this report is outlined in Chapter 2.

Overall findings

AEOI legal framework

Bahrain's legal framework implementing the AEOI Standard is in place and is consistent with the requirements of the AEOI Terms of Reference. This includes Bahrain's domestic legislative framework requiring Reporting Financial Institutions to conduct the due diligence and reporting procedures (CR1) and its international legal framework to exchange the information with all of Bahrain's Interested Appropriate Partners (CR2).

Overall determination on the legal framework: In Place

Effectiveness of AEOI in practice

Bahrain's implementation of the AEOI Standard is on track with respect to the requirements of the AEOI Terms of Reference to ensure the effectiveness of the AEOI Standard in practice. This includes ensuring Reporting Financial Institutions correctly conduct the due diligence and reporting procedures (CR1) and exchanging the information in an effective and timely manner (CR2). Bahrain is encouraged to continue its implementation process accordingly, to ensure its ongoing effectiveness.

Overall rating in relation to the effectiveness in practice: On Track

General context

Bahrain commenced exchanges under the AEOI Standard in 2018, and exchanges information on a non-reciprocal basis (i.e. Bahrain sends but does not receive information).

In order to provide for Reporting Financial Institutions to collect and report the information to be exchanged, Bahrain:

- transposed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (MCAA) and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) into its domestic law; and
- enacted the CBB Common Reporting Standard (CRS) Directive OG/53/2017, the CBB CRS Directive OG/212/2017, the CBB CRS Directive OG/277/2018, and the MOICT circular FAEI/90/HR/2018.

Under this framework Reporting Financial Institutions were required to commence the due diligence procedures in relation to New Accounts from 1 July 2017. With respect to Preexisting Accounts, Reporting Financial Institutions were required to complete due diligence procedures on High Value Individual Accounts by 31 December 2017 and on Lower Value Individual Accounts and Entity Accounts by 31 December 2018.

With respect to the exchange of information under the AEOI Standard, Bahrain is a Party to the Convention on Mutual Administrative Assistance in Tax Matters and activated the associated CRS Multilateral Competent Authority Agreement in time for exchanges in 2018.

Table 1 sets out the number of Financial Institutions in Bahrain that reported information on Financial Accounts in 2021 as defined in the AEOI Standard (essentially because they maintained Financial Accounts for Account Holders, or that were related to Controlling Persons, resident in a Reportable Jurisdiction). It also sets out the number of Financial Accounts that they reported in 2021. In this regard, it should be noted that Bahrain requires the reporting of Financial Accounts held by non-residents based on a prescribed list of exchange partners and some accounts may be required to be reported more than once (e.g. jointly held accounts or accounts with multiple related Controlling Persons), which is reflected in the figures below. These figures provide key contextual information to the development and implementation of Bahrain's administrative compliance strategy, which is analysed in the subsequent sections of this report.

Table 1. Number of Financial Institutions reporting and Financial Accounts reported

	Number
Financial Institutions reporting Financial Accounts in 2021	133
Financial Accounts reported in 2021	41 378

Table 2 sets out the number of exchange partners to which information was successfully sent by Bahrain in the past few years (including where the necessary frameworks were in place but no relevant Reportable Accounts were identified). These figures provide key contextual information in relation to Bahrain's exchanges in practice, which is also analysed in subsequent sections of this report.

Table 2. Number of exchange partners to which information was successfully sent

	2018	2019	2020	2021
Number of exchange partners to which information was successfully sent	38	50	59	63

In order to provide for the effective implementation of the AEOI Standard, in Bahrain:

- the Central Bank of Bahrain (CBB, the authority responsible for supervising Financial Institutions licensed by the CBB); and the Ministry of Industry, Commerce and Tourism (MOICT, the authority responsible for supervising Financial Institutions not licensed by the CBB) have the responsibility to ensure the effective implementation of the due diligence and reporting obligations by Reporting Financial Institutions. The National Bureau for Revenue (NBR, the tax authority) is responsible for exchanging the information with Bahrain's exchange partners;
- technical solutions necessary to receive and validate the information reported by Reporting Financial Institutions were put in place by a CRS Portal managed by the CBB and the NBR; and
- the Common Transmission System (CTS) is used for the exchange of the information, along with the associated file preparation and encryption requirements.

It should be noted that the review of Bahrain's legal frameworks implementing the AEOI Standard concluded with the determination that Bahrain's domestic and international legal frameworks are In Place. This has been taken into account when reviewing the effectiveness of Bahrain's implementation of the AEOI Standard in practice.

Findings and conclusions on the legal frameworks

The detailed findings and conclusions on the AEOI legal frameworks for Bahrain are below, organised per Core Requirement (CR) and then per sub-requirement (SR) as extracted from the AEOI Terms of Reference (see Annex C).

CR1 Domestic legal framework: Jurisdictions should have a domestic legislative framework in place that requires all Reporting Financial Institutions to conduct the due diligence and reporting procedures in the CRS, and that provides for the effective implementation of the CRS as set out therein.

Determination: In Place

Bahrain's domestic legislative framework is in place and contains all of the key aspects of the CRS and its Commentary requiring Reporting Financial Institutions to conduct the due diligence and reporting procedures (SRs 1.1 – 1.3). It also provides for a framework to enforce the requirements (SR 1.4).

SR 1.1 Jurisdictions should define the scope of Reporting Financial Institutions consistently with the CRS.

Findings:

Bahrain has defined the scope of Reporting Financial Institutions in its domestic legislative framework in accordance with the CRS and its Commentary.

Recommendations:

No recommendations made.

SR 1.2 Jurisdictions should define the scope of Financial Accounts and Reportable Accounts consistently with the CRS and incorporate the due diligence procedures to identify them.

Findings:

Bahrain has defined the scope of the Financial Accounts that are required to be reported in its domestic legislative framework and incorporated the due diligence procedures that must be applied to identify them in accordance with the CRS and its Commentary.

Recommendations:

No recommendations made.

SR 1.3 Jurisdictions should incorporate the reporting requirements contained in Section I of the CRS into their domestic legislative framework.

Findings:

Bahrain has incorporated the reporting requirements in its domestic legislative framework in accordance with the CRS and its Commentary.

Recommendations:

No recommendations made.

SR 1.4 Jurisdictions should have a legislative framework in place that allows for the enforcement of the requirements of the CRS in practice.

Findings:

Bahrain has a legislative framework in place to enforce the requirements in accordance with the CRS and its Commentary.

Recommendations:

No recommendations made.

CR2 International legal framework: Jurisdictions should have exchange relationships in effect with all Interested Appropriate Partners as committed to and that provide for the exchange of information in accordance with the Model CAA.

Determination: In Place

Bahrain's international legal framework to exchange the information is in place, is consistent with the Model CAA and its Commentary and provides for exchange with all of Bahrain's Interested Appropriate Partners (i.e. all jurisdictions that are interested in receiving information from Bahrain and that meet the required standard in relation to confidentiality and data safeguards) (SRs 2.1 – 2.3).

SR 2.1 Jurisdictions should have exchange agreements in effect with all Interested Appropriate Partners that permit the automatic exchange of CRS information.

Findings:

Bahrain has exchange agreements that permit the automatic exchange of CRS information in effect with all its Interested Appropriate Partners.

Recommendations:

No recommendations made.

SR 2.2 Such an exchange agreement should be put in place without undue delay, following the receipt of an expression of interest from an Interested Appropriate Partner.

Findings:

Bahrain put in place its exchange agreements without undue delay.

Recommendations:

No recommendations made.

SR 2.3 Jurisdictions should ensure that the exchange agreements in effect provide for the exchange of information in accordance with the requirements of the Model CAA.

Findings:

Bahrain's exchange agreements provide for the exchange of information in accordance with the requirements of the Model CAA.

Recommendations:

No recommendations made.

Assessed jurisdiction's comments on the assessment of its legal frameworks

No comments made.

Findings and conclusions in relation to effectiveness in practice

The detailed findings and conclusions in relation to effectiveness in practice of AEOI for Bahrain are below, organised per Core Requirement (CR) and then per sub-requirement (SR) as extracted from the AEOI Terms of Reference (see Annex C).

CR1 Effectiveness in practice: Jurisdictions should ensure that in practice Reporting Financial Institutions correctly implement the due diligence and reporting procedures, which includes a requirement for jurisdictions to have in place an administrative framework to ensure the effective implementation of the CRS.

Rating: On Track

Bahrain's implementation of the AEOI Standard is on track with respect to ensuring that Reporting Financial Institutions are correctly conducting the due diligence and reporting procedures and are therefore reporting complete and accurate information. This includes ensuring effectiveness in a domestic context, such as through having an effective administrative compliance framework and related procedures (SR 1.5), and collaborating with exchange partners to ensure effectiveness (SR 1.6). Bahrain is encouraged to continue its implementation process to ensure its ongoing effectiveness.

SR 1.5 Jurisdictions should ensure that in practice Reporting Financial Institutions identify the Financial Accounts they maintain, identify the Reportable Accounts among those Financial Accounts, as well as their Account Holders, and where relevant Controlling Persons, by correctly conducting the due diligence procedures and collect and report the required information with respect to each Reportable Account. This includes having in place:

a) an effective administrative compliance framework to ensure the effective implementation of, and compliance with, the CRS. This framework should:
   i. be based on a strategy that facilitates compliance by Reporting Financial Institutions and which is informed by a risk assessment in respect of the effective implementation of the CRS that takes into account relevant information sources (including third party sources);
   ii. include procedures to ensure that Financial Institutions correctly apply the definitions of Reporting Financial Institutions and Non-Reporting Financial Institutions;
   iii. include procedures to periodically verify Reporting Financial Institutions' compliance, conducted by authorities that have adequate powers with respect to the reviewed Reporting Financial Institutions, with procedures to access the records they maintain; and
b) effective procedures to ensure that Financial Institutions, persons or intermediaries do not circumvent the due diligence and reporting procedures;
c) effective enforcement mechanisms to address non-compliance by Reporting Financial Institutions;
d) strong measures to ensure that valid self-certifications are always obtained for New Accounts;
e) effective procedures to ensure that each, or each type of, jurisdiction-specific Non-Reporting Financial Institution and Excluded Account continue to present a low risk of being used to evade tax; and
f) effective procedures to follow up with a Reporting Financial Institution when undocumented accounts are reported in order to establish the reasons why such information is being reported.

Findings:

In order to ensure that Reporting Financial Institutions correctly conduct the due diligence and reporting procedures, Bahrain implemented most of the requirements in accordance with expectations. However, an issue was identified. The key findings were as follows:

- The CBB and the MOICT each implemented an overarching strategy to ensure compliance with the AEOI Standard developed after conducting risk assessments that took into account a range of relevant information sources, such as information obtained from the supervision for AML purposes, the overall compliance of the Reporting Financial Institution with respect to taxes and the feedback received from the exchange partners. The CBB's and the MOICT's compliance strategies facilitate compliance and incorporate a credible approach to enforcement, and they intend to keep their compliance strategies and risk assessments under review to ensure their effectiveness on an ongoing basis.
- The CBB and the MOICT have worked effectively to understand their population of Financial Institutions (i.e. those licensed by the CBB and those overseen by the MOICT), utilising various relevant information sources, such as the list of licensed entities and the Foreign Financial Institution list for FATCA purposes and the list of licensees regulated by the MOICT. The CBB and the MOICT are taking action to ensure that Reporting Financial Institutions are classifying themselves correctly under their domestic rules and reporting information as required.
- The institutions responsible for implementing Bahrain's compliance strategy appear to have the necessary powers and resources to discharge their functions. Bahrain has assigned the equivalent of 10 full time staff, from the CBB, the MOICT and the NBR, to monitor and ensure compliance by Reporting Financial Institutions, which have access to IT systems and tools to conduct risk assessments.
- It appears that the CBB and the MOICT have enforced the requirements, including through the inspection of records of Reporting Financial Institutions and the application of dissuasive penalties and sanctions for non-compliance. It also appears that the CBB and the MOICT are ready to take effective action to address circumvention of the requirements if such circumvention is detected, and action is being taken to follow up with Reporting Financial Institutions that report undocumented accounts. The MOICT has formal procedures to monitor and verify whether self-certifications have been obtained as required, particularly where they are obtained after the opening of a Financial Account as well as procedures to address circumvention of the due diligence and reporting procedures by Financial Institutions, persons or intermediaries.
- Bahrain does not have a jurisdiction-specific list of Non-Reporting Financial Institutions or Excluded Accounts.

Table 3 provides a summary of the specific activities undertaken, or that are planned to be undertaken, in relation to each of the key parts of the framework described above.

Table 3. Activities undertaken

Activity type	Activities undertaken
Communication and outreach	Bahrain has carried out some communication and outreach activities, such as publishing detailed directives to facilitate the understanding and implementation of the AEOI Standard, and organizing trainings sessions with the financial sector.
Verifying that Financial Institutions are reporting as required	Bahrain has carried out some verification activities to ensure that Financial Institutions are reporting as required, such as cross-checking the list of entities regulated by the financial regulators and the list of Foreign Financial Institutions for FATCA purposes, and proactively contacting the Financial Institutions and inform them of their obligations under the AEOI Standard, and identified one Financial Institution incorrectly not reporting. Bahrain has followed up on this issue, and the Financial Institutions has since reported the data as required.
Verifying whether the information reported is complete and accurate	Bahrain has conducted some desk-based checks to verify whether the information being reported is complete and accurate. Furthermore, Bahrain has conducted some onsite visits. It accordingly identified some issues, commonly concerning incorrect or incomplete data reported.

Activity type	Activities undertaken
	Bahrain has followed up on these issues and corrections have subsequently been made by the Reporting Financial Institutions.
Enforcement	Following the activities mentioned above, Bahrain has imposed some penalties and sanctions, It is monitoring the impact of these penalties and sanctions with a view to ensuring future compliance.

In terms of the Financial Account information collected and sent by Bahrain, it was found to include a much lower proportion of Tax Identification Numbers with respect to the individuals associated with the accounts when compared to most other jurisdictions. Furthermore, while the collection and reporting of dates of birth is generally higher across jurisdictions, Bahrain nevertheless reported a lower rate of collection of dates of birth when compared to other jurisdictions. These are key data points for exchange partners to effectively utilise the information. Information provided by Bahrain also showed a significantly higher number of undocumented accounts reported by its Reporting Financial Institutions, when compared to other jurisdictions, meaning that it was not possible for the Reporting Financial Institution to identify whether the accounts should be reported. Follow-up discussions confirmed that Bahrain is aware of these issues and is taking steps to address them.

Feedback was also received from Bahrain's exchange partners indicating that, compared to what they generally experience in relation to the information received from all of their exchange partners, they achieved a relatively lower level of success when seeking to match information received from Bahrain with their taxpayer database. Follow-up discussions confirmed that Bahrain is aware of these issues is seeking to improve the situation.

Based on these findings it was concluded that, overall, Bahrain is meeting expectations in ensuring that Reporting Financial Institutions correctly conduct the due diligence and reporting procedures, including by having in place the required administrative compliance framework and related procedures. It was also noted that there is room for improvement with respect follow-up activities with Financial Institutions which have reported undocumented accounts. Bahrain is therefore encouraged to continue its implementation process accordingly, including by addressing the recommendation made.

Recommendations:

Bahrain should continue its follow-up activities with Reporting Financial Institutions reporting undocumented accounts, including to understand the reason for it, and ensure they are correctly applying the definition.

SR 1.6 Jurisdictions should collaborate on compliance and enforcement. This requires jurisdictions to:

a) use all appropriate measures available under the jurisdiction's domestic law to address errors or non-compliance notified to the jurisdiction by an exchange partner; and
b) have in place effective procedures to notify an exchange partner of errors that may have led to incomplete or incorrect information reporting or non-compliance with the due diligence or reporting procedures by a Reporting Financial Institution in the jurisdiction of the exchange partner.

It should be noted that, as Bahrain exchanges information on a non-reciprocal basis and does not therefore receive information, it is not required to have in place procedures to notify its exchange partners. SR 1.6 b) has therefore not been assessed in this case.

Findings:

In order to collaborate on compliance and enforcement, it appears that Bahrain implemented all of the requirements in relation to issues notified to them (i.e. under Section 4 of the MCAA or equivalent) in accordance with expectations. While no such notifications have yet been received, Bahrain has the necessary systems and procedures to process them as required.

Based on these findings it was concluded that Bahrain is fully meeting expectations in relation to collaborating with its exchange partners to ensure that Reporting Financial Institutions correctly conduct the due diligence and reporting procedures. Bahrain is encouraged to continue its implementation process accordingly, to ensure its ongoing effectiveness.

Recommendations:

No recommendations made.

CR2 Effectiveness in practice: Jurisdictions should exchange the information effectively in practice, in a timely manner, including by sorting, preparing, validating and transmitting it in accordance with the AEOI Standard.

Rating: On Track

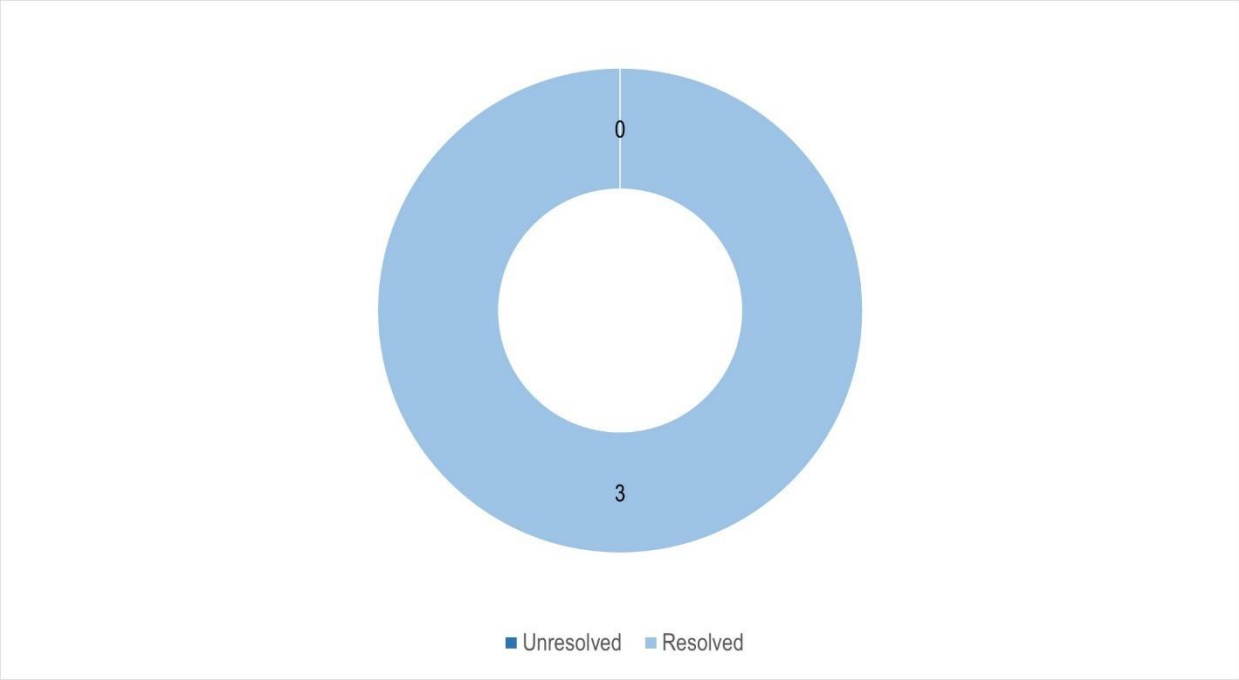
Bahrain's implementation of the AEOI Standard is on track with respect to exchanging the information effectively in practice, including in relation to sorting, preparing and validating the information (SR 2.4), correctly transmitting the information in a timely manner (SRs 2.5 – 2.7) and providing corrections, amendments or additions to the information (SR 2.9). The requirements in relation to the receipt of the information (SR 2.8) have not been assessed as Bahrain exchanges information non-reciprocally, so does not receive information. Bahrain is encouraged to continue its implementation process accordingly, to ensure its ongoing effectiveness.

SR 2.4 Jurisdictions should sort, prepare and validate the information in accordance with the CRS XML Schema and the associated requirements in the CRS XML Schema User Guide and the File Error and Correction-related validations in the Status Message User Guide (i.e. the 50000 and 80000 range).

Findings:

Two exchange partners highlighted particular issues with respect to preparation and format of the information sent by Bahrain (representing 3% of its partners). More generally, three (or 4%) of Bahrain's exchange partners reported rejecting more than 25% of the files received, of which two reported rejecting more than 50% of files received, due to the technical requirements not being met. This is broadly in line with the general experience of other jurisdictions. It was noted that Bahrain has already successfully addressed all of the issues.

Figure 1. Technical issues raised by Bahrain's exchange partners



Based on these findings it was concluded that Bahrain is fully meeting expectations in relation to sorting, preparing and validating the information. Bahrain is encouraged to continue its implementation process accordingly, to ensure its ongoing effectiveness.

Recommendations:

No recommendations made.

SR 2.5 Jurisdictions should agree and use, with each exchange partner, transmission methods that meet appropriate minimum standards to ensure the confidentiality and integrity of the data throughout the transmission, including its encryption to a minimum secure standard.

Findings:

In order to put in place an agreed transmission method that meets appropriate minimum standards in confidentiality, integrity of the data and encryption for use with each of its exchange partners, Bahrain linked to the CTS.

Based on these findings it was concluded that Bahrain is fully meeting expectations in relation to agreeing and using appropriate transmission methods with each of its partners. Bahrain is encouraged to continue to ensure the ongoing effectiveness of its implementation.

Recommendations:

No recommendations made.

SR 2.6 Jurisdictions should carry out all exchanges annually within nine months of the end of the calendar year to which the information relates.

Findings:

Two exchange partners highlighted delays in the sending of information by Bahrain (representing 3% of its partners). It was noted that Bahrain successfully addressed all the issues and sent the information as soon as possible thereafter.

Based on these findings it was concluded that Bahrain is fully meeting expectations in relation to exchanging the information in a timely manner. Bahrain is encouraged to continue to ensure the ongoing effectiveness of its implementation.

Recommendations:

No recommendations made.

SR 2.7 Jurisdictions should send the information in accordance with the agreed transmission methods and encryption standards.

Findings:

Feedback from Bahrain's exchange partners did not raise any concerns with respect to Bahrain's use of the agreed transmission methods and therefore with Bahrain's implementation of this requirement.

Based on these findings it was concluded that Bahrain is fully meeting expectations in relation to sending the information in accordance with the agreed transmission methods and encryption standards. Bahrain is encouraged to continue to ensure the ongoing effectiveness of its implementation.

Recommendations:

No recommendations made.

SR 2.8 Jurisdictions should have the systems in place to receive information and, once it has been received, should send a status message to the sending jurisdictions in accordance with the CRS Status Message XML Schema and the related User Guide.

It should be noted that, as Bahrain exchanges information on a non-reciprocal basis and does not therefore receive information, it is not required to have in place systems to receive the information and provide status messages. SR 2.8 has therefore not been assessed in this case.

Findings:

Not applicable.

Recommendations:

Not applicable.

SR 2.9 Jurisdictions should respond to a notification from an exchange partner as referred to in Section 4 of the Model CAA (which may include Status Messages) in accordance with the timelines set out in the Commentary to Section 4 of the Model CAA. In all other cases, jurisdictions should send corrected, amended or additional information received from a Reporting Financial Institution as soon as possible after it has been received.

Findings:

Bahrain appears ready to respond to notifications and to provide corrected, amended or additional information in a timely manner and no such concerns were raised by Bahrain's exchange partners and therefore with respect to Bahrain's implementation of these requirements.

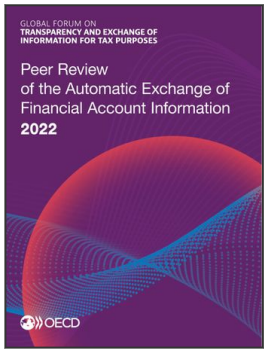
Based on these findings it was concluded that Bahrain appears to be meeting expectations in relation to responding to notifications from exchange partners and the sending of corrected, amended or additional information. Bahrain is encouraged to continue to ensure the ongoing effectiveness of its implementation.

Recommendations:

No recommendations made.

Assessed jurisdiction's comments on the assessment of effectiveness in practice

Bahrain would like to thank the OECD Secretariat for their assistance during the review period. Bahrain reaffirms its commitment to ensuring effective implementation of the AEOI standard, to enhancing its transparency and exchange of information obligations and to meeting AEOI standard.



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