

February 15, 2005

## CIRCULAR FM – 15

**To: All Licensed Finance and Leasing Companies (FLCs) Operating in the Sultanate of Oman**

After Compliments,

**Sub: Master Circular on Financial Obligations of Senior Members in the Management of FLCs to any of the Licensed Financial Institutions in the Sultanate of Oman**

1. The Finance and Leasing Companies (FLCs) are leveraged institutions and are carrying on their business on public confidence. The international best practices require that only persons of highest integrity and moral standards occupy senior positions in FLCs. In the interest of enhancing soundness of the financial system, promoting corporate governance, achieving greater transparency and to reinforce the *'fit and proper'* criteria for senior positions in the FLCs, the following instructions, in supersession of the provisions contained in circulars BM 928 and BM 951, have been issued for strict compliance.

2. The senior members in the management of the FLCs should be removed from their respective positions when any of their obligations to any of the licensed financial institutions have been classified as ***sub-standard or doubtful or loss***, as per the extant instructions of the Central Bank, by ***banks / FLCs or the Central Bank or the external auditors***. The term 'senior members', referred to in the circular is broad and should also include *'related parties / business interests'* and *'affiliated bodies'*, as defined in paragraphs 2 (ii), (iii) and (iv) of the circular FM 10, dated June 27, 2001 (the extracts are attached). The *'obligations'* include all types of credit facilities, both direct and indirect obligations.

3. Accordingly, the provisions of the circular apply to all senior positions, directly related to the top management of the licensed FLCs, such as the Chairmen/Chairpersons, Members of the Boards including Proxy Directors, Chief Executive Officers, and other line Management - General Managers, Deputy General Managers and Assistant General Managers. The FLCs should ensure that the provisions of this circular are also applied to other senior level positions, who are reporting directly to the Boards / CEOs or otherwise, although they are not so explicitly designated.

4. A grace period of three months from the date of the classification has been provided to enable the senior members in regularizing and securing declassification of their obligations. In the event of failure to regularize the obligations and secure declassification of the exposures within the grace period, the senior members should be dismissed from their respective positions. The FLCs are free to proceed either legally or otherwise against such delinquent borrowers for recovery of their claims, irrespective of the actions taken against the senior members under the provisions of this circular.

5. The onus of enforcing the provisions of the circular, both in letter and spirit, rests with the FLCs. The FLCs should review the position, at least at quarterly intervals and put in place proper systems including inquiring the classified on-line database of the BCSB system for ensuring full compliance. The FLCs should also submit certificates on compliance with the provisions of the circular, so as to reach the Central Bank, within 15 days of the last day of each quarter. The certificate for the December quarter, duly certified by the external auditors, should be submitted, latest by February 15<sup>th</sup> of the following year. The first such report for the year ended December 31, 2004 should reach the Central Bank, latest by February 28, 2005.

6. Any failures in complying with the provisions of the circular and / or wrong certification would entail such actions including sanctions, as deemed appropriate, under the provisions of the Banking Law 2000.

Best regards,

**Hamood Sangour Al Zadjali**  
**The Executive President**

**Relevant Extracts of Circular FM 10 dated June 27, 2001**

**Paragraph 2 (ii) *Senior Member in the management of an institution*** – includes all senior positions directly related to the top management of the particular lending institution, such as the Chairman, Members of the Board, Proxy Director, Chief Executive Officer / General Manager and other line Management. Every Shareholder of the lending institution who owns, directly or through affiliated bodies or related business interests, over 10 percent of the issued shares of that institution, too, shall fall into the category of Senior Member.

A Holding Company owning 25 percent or more of the net worth of that institution, if any, shall also be identified for this purpose as a Senior Member, in its corporate name, if it is not represented in the particular institution's Board by a Proxy Director.

**Paragraph 2 (iii) *Related Parties / Business Interests*** – A business shall be deemed related to a Senior Member in the management of the lending institution when it includes one or more of the following:

- a) Proxy of a Senior Member in the management of the lending institution, as referred to in paragraph 2 (ii) above.
- b) Spouse or relatives of a Senior Member in the management of the lending institution either within the first degree by blood relationship (father and mother, husband and wives and sons and daughters, either dependent or not), or relatives by legal adoptions.
- c) Corporations, associations or affiliated bodies, when it is established that a Senior Member in the Management of the lending institution or his spouse or his relatives within the first degree, as referred to in paragraph 2 (iii) (b) above or his related / affiliated business interests own or control shares which, when aggregated, are equivalent to 25 percent or more in the net worth of the borrowing entity.

**Paragraph 2 (iv) *Affiliated Bodies*** – entities wherein a Senior Member in the management of the lending institution or spouse or direct relatives within the first degree or proxy, individually or jointly, own or control shares equivalent to 25 percent or more in the net worth of such entity.