

Newsletter

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keypoint



National day 2019

[Updates to economic substance rules](#)

[New series of bi-lingual KSA-focused tax alerts](#)

[IFRS 17 update](#)

[IFRS 17 seminar](#)

[2019 FATCA & CRS reporting](#)

[Machine learning in business systems](#)

[Wajdi Al Jallad invited to panel at World Bank event](#)

[Events sponsored by Keypoint](#)

[Social events](#)

[New joiners](#)

Updates to economic substance rules

As a lower-tax jurisdiction, Bahrain has successfully attracted many regional and international businesses, helping to further diversify the economy. However, there are concerns that businesses may have tried to take advantage of lower taxes by shifting profits here rather than being taxed where economic value was actually created. Economic substance rules (ESRs) across the GCC are a response to increasing scrutiny – by tax authorities in other jurisdictions, global bodies such as the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) as well as the general public - of attempts by businesses to unfairly benefit from beneficial tax regimes.

In Resolution 106 of 2018, the Ministry of Industry, Commerce and Tourism (MOICT) sets out how businesses registered in Bahrain must 'validate their economic substance'. In essence, businesses in Bahrain must prove that they have genuine commercial operations and management in Bahrain, rather than establishing a presence here simply for tax reasons. The CBB has issued a similar directive (OG/499/2018) to all of its licensees.

As a leading professional services firm with corporate advisory, financial and regulatory compliance and tax functions, Keypoint has the knowledge and expertise that businesses – both financial and non-financial - will need to demonstrate they meet the ESRs.

Our recent [ESR flyer](#) includes more information on how the ESRs may impact your business.

New series of bi-lingual KSA-focused tax alerts

As a G20 economy and one of the largest countries in MENA, Saudi Arabia is an important market for many GCC businesses. Over the last five years, the country has significantly overhauled its tax legislation and processes, including the introduction of a digital tax portal (ERAD), the introduction of VAT, changes to zakat regulations and – most recently – upgrades to its transfer pricing regulations in response to the OECD's BEPS initiative (see next article on Bahrain's ESR requirements).

In recognition of both the importance of the Saudi market and the need to remain up-to-date with changes in tax legislation and practice, Keypoint's office in Saudi Arabia is developing a series of tax alerts covering key tax issues. Currently, two alerts are available – one on [capital gains tax](#) and one on [withholding tax](#). Arabic versions of the alerts will be available shortly.

The next two alerts will cover zakat and Saudi tax appeals processes. Alerts are hosted on our [website](#) and are usually included in [TaxFlash](#). Please feel free to share these alerts with colleagues and contacts who might be interested.



IFRS 17 update

The International Accounting Standards Board issued IFRS 17 Insurance Contracts in May 2017, setting out requirements for reporting information about insurance and reinsurance contracts. Insurance companies are required to implement IFRS 17 (along with IFRS 9) from 1 January 2022 and prepare financial statements for the year ending 31 December 2022, as well as quarterly interim financial statements with comparatives.



On 15 October 2019, the Central Bank of Bahrain issued a circular to all of its insurance licensees, requiring them to ensure that they are prepared for the significant changes IFRS 17 will introduce. IFRS 17, which will drive significant accounting change, applies to Insurance contracts, reinsurance contracts (issued and held) and investment contracts with discretionary participation features (where businesses also issue insurance contracts).

For more information on IFRS 17, please refer to our recent [IFRS 17 flyer](#).

IFRS 17 seminar

As insurance companies in Bahrain, regionally and across the globe, come to terms with the challenges of a new accounting standard, Keypoint – in association with SRCO, a leading IFRS-focused North American consultancy firm that has developed a diagnostic tool that will ease the adoption of these new, complex accounting standards - hosted an IFRS 17 seminar for key decision makers across the industry in November 2019.

Aimed at CEOs, CFOs and chief actuaries, the seminar looked at IFRS 17 from both an accounting and an actuarial perspective and featured two Canadian experts, Sameer Parekh and Muneer Feeroze. Parekh, a SRCO director who has led IFRS implementations for more than 100 public and private companies in North America and across the GCC, covered a number of accounting issues, including the relevance of IFRS 9, data requirements, expected credit loss models and IFRS 17 through an accounting lens. Feeroze, with deep actuarial valuation experience, covered valuations, historical and future data requirements, allocating and categorising insurance products, the complexity of projections, determining and setting actuarial assumptions and the importance of modelling.

As a leading professional services firm, we look forward to working with SMEs like SRCO's professionals to support the region's insurance companies as we move from understanding IFRS 17 (and IFRS 9) to comparing financial results under the old and new systems to parallel reporting – all before we see the first financial statements under the new standard in 2022.

2019 FATCA & CRS reporting

While the 2 May 2020 deadline may currently seem relatively far away, experience suggests that timelines are challenging.



With that in mind, Dr Mukund Ballal and the FRC team have developed a FATCA calendar to help keep our financial institutions clients on track:

Tasks

Review high value customers

January – February 2020:

List all customers with aggregated account balances above USD1m on 31 December 2019 including system data, customer mandate files and self-certification forms (where necessary).

Prepare for FATCA/CRS reporting

Deadline February 2020

- List all reportable accounts (for all jurisdictions) and related details for the year ended 31 December 2018. Include any additions, deletions or changes identified during the year 2019.
- Prepare the report in the required format.

Deadline March 2020

- Review report to confirm completeness of reportable information, including all reportable jurisdictions.
- Review system access.

Report

Deadline April 2020

Compile, upload and submit FATCA and CRS reports – submit nil reports if there are no reportable accounts.

Machine learning in business systems

As a senior director and the head of our IT consulting function, Srikant Ranganathan develops occasional pieces on aspects of IT that are – or are going to become – significant business issues. His latest piece of thought leadership is on machine learning in business systems:

The increasing need for speed when delivering services to clients has been a challenge that has stumped both big and small organisations, often making the difference between success and failure. Over-rapid adoption of technology changes, on the other hand, can prove both expensive and counterproductive due to technology failures, trend changes or user preferences. One trend that has stuck, breaking new ground by introducing quicker and more innovative client service, features artificial intelligence (AI) and one of its more practical uses – machine learning. Machine learning is the use of algorithms and models in computer systems to perform actions without explicit instructions, using patterns and inferences drawn from constantly evolving sample data. For users, this underpins technologies like chatbots, which provide intuitive responses based on user interaction.

Business systems (such as enterprise resource planning (ERP) and customer relationship management (CRM)) have started to use machine learning to minimise manual interventions in business processes. A classic example of machine learning in business systems is the processing of credit applications in the financial services industry, where processing times have been significantly reduced while learning algorithms increasingly effectively screen and classify applications based on risk. Human intervention has been reduced to handling exceptions and ensuring the sample data used to build inference databases is well-populated and includes as many potential scenarios as possible. Machine learning in ERP platforms creates a strong self-learning infrastructure with applications across all aspects of businesses, from the production floor to the top management.

While the underlying logic and benefits remain similar, the flexibility that these systems provide extends their applicability.

Businesses increasingly want to introduce machine learning due to the efficiencies it provides, the reduction in data collation, classification and analysis errors and its ability to navigate quickly through huge volumes of data. Another major advantage of systems based on machine learning is replicability across large organisations quickly and the ability to consistently apply learning to all subsequent transactions and processes.

Blind adoption of technology is never a good idea. All technology brings with it a unique set of risks which, if not addressed, could cause more harm than good. With machine learning, the risks multiply due to the reliance on software to take decisions. Risks that need to be addressed include the quality of algorithms and coding; the size and spread of sample data; and the adequacy and timeliness of exception handling techniques. Businesses have to be aware of the risk of rejection of valid transactions as much as the acceptance of invalid ones. One major challenge is the impact of a wrong decision. Another significant risk stems from the size of the vendors that provide the specialist modules that support machine learning. The explosion in AI and machine learning has resulted in the mushrooming of boutique fintech companies with limited financial muscle, restricted market reach and inadequate support capabilities, exposing adopters to vendor failure risk.

Some businesses are adopting machine learning by taking baby steps, introducing process and service capabilities that should not significantly impair an organisation's financial and reputational image in case of failure. We believe that businesses that deal with large volumes of geographically-dispersed or time-sensitive data should be early adopters. They will inevitably be followed by their peers – across industries and geographies – as confidence grows in machine learning-driven systems and returns on investment increase.

Integrating traditional business systems with machine learning and deploying upgraded systems across all aspects of business will become leading practice, fuelled by the increasing number of vendors and systems – the challenge is identifying when this will happen!

To discuss any of the issues raised here, please contact Srikant at srikant.ranganathan@keypoint.com

Wajdi Al Jallad invited to panel at World Bank event

The World Bank Group publishes an annual study – Doing Business - measuring the regulations that enhance and constrain business activity, presenting quantitative indicators on business regulations and the protection of property rights across 190 economies. Bahrain is one of this year's most improved performers.



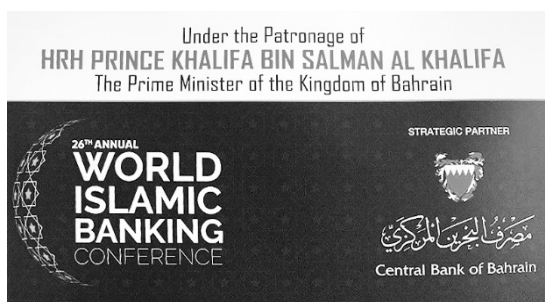
To celebrate this achievement, Bahrain's Economic Development Board invited a number of ministers and key decision-makers to comment on Bahrain's listing as one of the top 10 most improved economies in the World Bank rankings, including Wajdi Al Jallad, Keypoint's managing director.

"With markers ranging from starting a business and dealing with construction permits to enforcing contracts and trading across borders, Bahrain's continued drive to improve the economy has been widely recognised," Wajdi told an audience of over 350 people. "We look forward to the continuing development of the economy, as illustrated by this report." The [full report](#) and a [Bahrain snapshot](#) are both available on the [Doing business portal](#).

Events sponsored by Keypoint

World Islamic Banking Conference

Islamic banking assets now total roughly US\$1.7t, with the global Islamic finance industry continuing to grow impressively. The World Islamic Banking Conference (WIBC), now in its 26th year, addressed the growth of halal sectors, Islamic financial infrastructure and sukuk markets, examining regulatory reforms, standardisation, avenues of growth and the role of fintech and regtech (regulatory and *shari'a* compliance).



The 3-day summit was attended by over 1,300 senior executives from over 50 countries, including key decision makers at international Islamic financial institutions, ministers, policy makers, political leaders, senior government officials, ethical finance leaders, fintech innovators and senior economists.

Interarab Cambit Association (ICA) regional conference

The Interarab Cambit Association (ICA) held its regional conference in Bahrain in October. Themed "Reshaping finance in a changing economy", speakers included international political leaders, central bank governors, CEOs, chief economists and senior bankers.



Social events

Bahrain Marathon Relay 2019

Held annually to raise funds for beneficial causes and charities, we were delighted to participate in the 2019 Bahrain Marathon Relay. Our team finished 145th (clocked-in at 4hrs 55min 24sec) of the 180 teams registered – a great achievement!



Bahrain National Day celebrations

Our staff always go all out to celebrate Bahrain's National Day and this year was no exception. National Day celebrations saw staff dressed in the national colours of red and white and our offices adorned in red and white balloons and flying Bahrain flags – a stirring sight! The office organised sweets and gahwa (traditional Arabic coffee) for all staff and visitors.

New joiners



AbdulRahman Bucheeri
Assistant Manager

Tax services

Recognised as a Bahraini subject matter expert on VAT with a particular focus on financial services, AbdulRahman has, over the last two years, developed a deep understanding of VAT, including as part of a leading Bahrain-headquartered international bank's in-house tax function. He has also worked in a number of different GCC countries with 'Big 4' firms. With a deep understanding of both VAT touch-points within businesses and VAT implications for different corporate functions, he has provided VAT implementation, compliance and advisory services to firms in Bahrain, Saudi Arabia and the UAE.

Bilingual (Arabic and English), AbdulRahman has a BSc (Business administration and management) from Carnegie Mellon University (Qatar) as well as the CIMA advanced diploma in management accounting.



Dinesh Ravi
Manager

Tax services

Dinesh is a tax and *zakat* technical expert who has worked on assessments from the General Authority for Zakat and Tax (GAZT), attending field inspections, advising clients on double tax treaties and performing tax due diligence. He has worked across the Saudi tax filing process, including registering new companies and e-filing annual tax, zakat and withholding tax returns on the ERAD portal.

Dinesh has a 'Big 4' background, having worked with a leading professional services firm in India and Saudi Arabia where he developed a deep understanding of Saudi tax and *zakat*, as well as US corporation and partnership taxation.

Dinesh has an MBA (specialised in finance and accounting) from SRM University (India) and a BBA (Finance and Accounting) from the University of Madras (India).

Your success is our priority



New joiners



Ghada Awdi

Manager

Financial & regulatory compliance

Ghada, who has recently joined our FRC function as a manager, has broad risk management, credit, compliance and anti-money laundering (AML) experience, having assessed or supported the delivery of risk management and compliance frameworks for commercial and investment banks, investment firms and insurance companies. She was previously a CBB-approved person for a *shari'a*-compliant category 1 investment firm, focusing on risk management, compliance, money laundering reporting and fraud detection.

Ghada has experience within the financial services and other industries as well as a 'Big 4' professional services firm. She has a wide range of compliance and risk certifications, including APRM (PRMIA, USA), CAMS (ACAMS, USA), the international diploma in GRC (ICA, UK) and PRM levels II and IV, as well as a BSc in Business Management from the University of Bahrain.