



# **GENERAL REQUIREMENTS MODULE**



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MODULE	GR:	General Requirements
CHAPTER	GR-A:	Introduction

## GR-A.1 Purpose

### *Executive Summary*

GR-A.1.1 The General Requirements Module presents a variety of different requirements that are not extensive enough to warrant their own stand-alone Module, but for the most part are generally applicable. These include general requirements on books and records; on the use of corporate and trade names; and on controllers. Each set of requirements is contained in its own Chapter: a table listing these and their application to licensees is given in Chapter GR-B.

### *Legal Basis*

#### GR-A.1.2

This Module contains the Central Bank of Bahrain's ('CBB') Regulation No.(31) of 2008 and Directive (as amended from time to time) governing bank control and general requirements and is issued under the powers available to the CBB under Articles 38 and 52 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). The Module also contains requirements pertaining to controllers as prescribed under Resolution No.(43) of 2011 governing the conditions of granting a license for the provision of regulated services and is issued under the powers available to the CBB under Article 44(c). The requirements of Resolution No.(33) for the year 2012 with respect to the issuance of the Regulation setting the procedures for processing applications of banks to transfer financial services business in the Kingdom of Bahrain are included in Chapter GR-4. The Regulation, Resolutions and Directive in this Module are applicable to all conventional bank licensees.

GR-A.1.3 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



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<b>CHAPTER</b>	<b>GR-A:</b>	<b>Introduction</b>

## GR-A.2 Module History

### *Evolution of Module*

GR-A.2.1 This Module was first issued in July 2006, with immediate effect, as a new Module aimed at aligning the structure and contents of Volume 1 with other Volumes of the CBB Rulebook. All subsequent changes to this Module are annotated with the end-calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

GR-A.2.2 The October 2007 version incorporates the requirements relating to controllers, previously contained in Chapter HC-2 of the High-Level Controls Module. It also expands on certain requirements contained in the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006).

GR-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
GR-5	04/2008	New notification and approval requirements in respect of “Controllers”
GR-4, GR-5.4, GR-7	10/2007	Administrative changes due to implementation of CBB Law. Revised notification deadlines etc.
GR-1	10/2007	This Chapter has been relocated to OM Module.
GR-8	10/2007	CBB Fees Chapter has been transferred to Module LR.
GR-5.3	01/2010	Revised approval threshold for controllers which are financial institutions.
GR	01/2011	Various minor amendments to ensure consistency in CBB Rulebook.
GR-A.1.2 and A.1.3	01/2011	Added legal basis.
GR-3.1.1	04/2011	Clarified Rule pertaining to announcement of dividend.
GR-4.12	04/2011	Clarified Guidance and deleted reference to outsourcing and winding up proceedings.
GR-4.1	07/2011	Regulation under consultation.
GR-A.1.2 and GR-5.3.5A	10/2011	New reference added to reflect the issuance of Resolution No.(43) of 2011, and reference made to controllers.
GR-3.1	10/2011	Clarified guidance Paragraphs on CBB’s non-objection for dividends.
GR-5.2.2	10/2011	Clarified the definition of “associate”.
GR-7	10/2011	Chapter redrafted to be consistent with other Volumes of the CBB Rulebook.
GR-5.3.8	07/2012	Percentage amended to be consistent with Paragraph GR-5.3.5.
GR-A.1.2	10/2012	Updated legal basis.
GR-4	10/2012	Amended to reflect the issuance of Resolution No.(33) of 2012.
GR-4.2.3	01/2013	Specified timeline for CBB preliminary assessment.
GR-5.4.1 and GR-5.4.3	04/2013	Changed Rules to Guidance.
GR-5	07/2013	Changes made to be in line with Regulation No.(31) for the year 2008.
GR-A.2.1	01/2014	Deleted repetitive sentence.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-A:</b>	<b>Introduction</b>

## GR-A.2 Module History (continued)

### *Superseded Requirements*

GR-A.2.4 This Module supersedes:

Circular / other reference	Provision	Subject
Module LR (April 2006 version)	LR-6: Record-keeping Keeping	Record-keeping keeping requirements were moved to GR-1, and edited down to simplify and avoid duplication of record-keeping keeping requirements contained in Module FC.
Module HC (April 2006 version)	HC-2: 'Fit and Proper Requirement'	Requirements relating to controllers were moved to GR-5. Remaining 'fit and proper' elements regarding Directors and key employees of licensees were retained in HC-2, in a re-drafted form.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-B:</b>	<b>Scope of Application</b>

## GR-B.1 Conventional Bank Licensees

### *License Categories*

#### GR-B.1.1

The requirements in Module GR (General Requirements) apply to both retail and wholesale conventional bank licensees.

### *Bahraini and Overseas Bank Licensees*

#### GR-B.1.2

The scope of application of Module GR (General Requirements) is as follows:

Chapter	Bahraini bank licensees	Overseas bank licensees
GR-2	Applies to the whole bank.	Applies to the Bahrain branch only.
GR-3	Applies to the whole bank.	Doesn't apply.
GR-4	Applies to the whole bank.	Applies to the Bahrain branch only.
GR-5	Applies to the whole bank.	Applies to the whole bank..
GR-6	[This Chapter has been left blank.]	[This Chapter has been left blank.]
GR-7	Applies to the whole bank.	Applies to the Bahrain branch only.

#### GR-B.1.3

In the case of Bahraini bank licensees, certain requirements apply to the whole bank, irrespective of the location of its business; other requirements apply only in respect to business booked in Bahrain. In the case of overseas bank licensees, the requirements of Module GR mostly only apply to business booked in the Bahrain branch.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-1:</b>	<b>Books and Records</b>

[This Chapter has been relocated to Module OM.]



MODULE	GR:	General Requirements
CHAPTER	GR 2:	Corporate and Trade Names

## GR-2.1 Vetting of Names

**GR-2.1.1** Conventional bank licensees must seek prior written approval from the CBB for their corporate name and any trade names, and those of their subsidiaries located in Bahrain.

**GR-2.1.2** GR-2.1.1 applies to overseas conventional bank licensees only with respect to their Bahrain branch.

GR-2.1.3 Rules GR-2.1.1 and GR-2.1.2 refers to the requirements contained in Article 41 of the CBB Law.

GR-2.1.4 In approving a corporate or trade name, the CBB seeks to ensure that it is sufficiently distinct as to reduce possible confusion with other unconnected businesses, particularly those operating in the financial services sector. The CBB also seeks to ensure that names used by unregulated subsidiaries do not suggest those subsidiaries are in fact regulated.





MODULE	GR:	General Requirements
CHAPTER	GR-3:	Dividends

## GR-3.1 CBB Non-Objection

### GR-3.1.1

Bahraini conventional bank licensees must obtain a letter of no-objection from the CBB to any dividend proposed, before announcing the proposed dividend by way of a press announcement or any other means of communication and prior to submitting a proposal for a distribution of profits to a shareholder vote.

GR-3.1.2 The CBB will grant a no-objection letter where it is satisfied that the level of dividend proposed is unlikely to leave the licensee vulnerable – for the foreseeable future – to breaching the CBB’s capital requirements, taking into account (as appropriate) the licensee’s liquidity and the adequacy of provisions against impaired loans or other assets.

GR-3.1.3 To facilitate the prior approval required under Paragraph GR-3.1.1, conventional bank licensees subject to GR-3.1.1 should provide the CBB with:

- (a) The licensee’s intended percentage and amount of proposed dividends for the coming year;
- (b) A letter of no objection from the bank’s external auditor on such profit distribution; and
- (c) A detailed analysis of the impact of the proposed dividend on the capital adequacy requirements outlined in Module CA (Capital Adequacy).



MODULE	GR:	General Requirements
CHAPTER	GR 4:	Business Transfers

## GR-4.1 CBB Approval

### GR-4.1.1

In accordance with the CBB Governor's Resolution No.(33) for the year 2012 issued pursuant to Article 66 of the CBB Law, a conventional bank licensee (transferor) must seek prior written approval from the CBB before transferring any regulated banking service to a person (transferee), except in the following circumstances:

- (a) Where the transferred business is limited to the assets and/or liabilities of the transferor and does not include any regulated banking services; or
- (b) Where the regulated service transferred accounts for less than 5% of the transferor's total assets and/or liabilities as recorded in the unconsolidated balance sheet of the financial quarter preceding the date of the transfer of business application.

GR-4.1.2 For purposes of Paragraph GR-4.1.1 (a), a business transfer refers to a transfer of the rights and obligations of one conventional bank licensee to a third party, so that the customers continue to be subject to the same terms and conditions as those originally agreed.

### GR-4.1.3

In instances where Subparagraph GR-4.1.1(b) applies, conventional bank licensees must notify the CBB before transferring any regulated banking service to a transferee one month prior to the transfer taking place.

GR-4.1.4 Rule GR-4.1.1 is intended to apply to circumstances where a bank wishes to transfer all or part of its business (examples: credit card business, asset management business) to a third party, or is undertaking winding up proceedings.

### GR-4.1.5

In the case of a Bahraini conventional bank licensee, Chapter GR-4 applies to its assets and liabilities booked in Bahrain. In the case of an overseas conventional bank licensee, Chapter GR-4 applies only to assets and liabilities booked in the bank's Bahrain branch.



MODULE	GR:	General Requirements
CHAPTER	GR 4:	Business Transfers

## GR-4.2 Procedure with Respect to Applications

### GR-4.2.1

Conventional bank licensees wishing to transfer banking business in the Kingdom must apply to the Executive Director of Banking Supervision by submitting an application form along with the supporting documents as specified by the CBB (see Part B, Supplementary Information, Appendix GR-1). Unless otherwise directed by the CBB, the application must provide:

- (a) Full details of the business to be transferred including a detailed list of all liabilities or assets that will be transferred;
- (b) The rationale for the proposed transfer;
- (c) If applicable, an assessment of the impact of the transfer on any customers directly affected by the transfer, and any mitigating factors or measures;
- (d) If applicable, an assessment of the impact of the transfer on the transferor's remaining business and customers; and
- (e) Evidence that the proposed transfer has been duly authorised by the transferor (such as a certified copy of a Board resolution approving the transfer).

GR-4.2.2 Banks intending to apply to transfer a regulated service are advised to contact the CBB at the earliest possible opportunity, in order that the CBB may determine the nature and level of any documentation and/or the need for an auditor or other expert opinion to be provided. The CBB will grant its permission where the transfer will have no negative impact on the financial soundness of the bank, and does not otherwise compromise the interests of the bank's depositors and creditors. In all cases, the CBB will only grant its permission where the institution acquiring the regulated service holds the appropriate regulatory approvals and is in good regulatory standing.

#### *Preliminary Assessment*

GR-4.2.3 The CBB will make a preliminary assessment of whether the proposed transfer is of a type that could be considered for approval or not based on the receipt of the documents referred to in Paragraph GR-4.2.1. If rejected, the applicant will be informed accordingly. The CBB will approve/reject the transfer of business application form after the submission of all necessary documents within 14 calendar days of the date where all documents have been submitted.

#### *Publication of the Transfer of Business Application*

GR-4.2.4 In instances where the CBB is in favor of the transfer requested, and in accordance with Article 66(c) of the CBB Law, the transfer of business application will be published by the CBB in the Official Gazette and in two daily newspapers in the Kingdom of Bahrain (one in Arabic and one in English). The CBB notice will include a statement that written representations concerning the transfer of business application may be sent to the CBB within three months from the date of publication.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR 4:</b>	<b>Business Transfers</b>

## **GR-4.2 Procedure with Respect to Applications (continued)**

GR-4.2.5 If the liabilities are located in a jurisdiction outside Bahrain, the CBB may also publish such notice in the jurisdiction in which the risk is situated.

**GR-4.2.6** In all cases, the costs of publication of the notices referred to in Paragraphs GR-4.2.5 and GR-4.2.6 must be met by the transferor.



MODULE	GR: General Requirements
CHAPTER	GR 4: Business Transfers

### GR-4.3 Determination of Application

GR-4.3.1 The CBB will consider an application under Paragraph GR-4.2.1 if it is satisfied that:

- (a) Any objections received to the application to transfer the business following its publication in the Official Gazette and in two daily newspapers in the Kingdom of Bahrain (one in Arabic and one in English) as required under Article 66(d) have been reviewed and resolved by the CBB.
- (b) Except in so far as the CBB has otherwise directed, a copy of the notice has been sent to every affected customer and every other person who claims an interest in an asset or liability included in the proposed transfer (and has given written notice of his claim to the transferor);
- (c) Copies of a statement, approved by the CBB, setting out particulars of the transfer, have been available for inspection at one or more places in Bahrain for at least 30 days, from the date of publication of the notice specified in Paragraph GR-4.2.3; and
- (d) Where the proposed transfer includes any contract where the risk is situated in a jurisdiction other than Bahrain, a statement, approved by the CBB, setting out particulars of the transfer, has been available for inspection at one or more places in that jurisdiction for at least 30 days, starting with the date of publication of the notice specified in Paragraph GR-4.2.3.

GR-4.3.2 The CBB will not approve the transfer, under the terms of Paragraph GR-4.2.1, unless it is satisfied that:

- (a) The transferee is authorised to carry on regulated banking services in Bahrain or (where relevant) is authorised or otherwise permitted to carry on regulated banking services in the jurisdiction where any overseas risks are situated;
- (b) Every transaction or account or relationship included in the transfer evidences a contract which was entered into before the date of the application;
- (c) The transferee possesses the necessary solvency required by the regulatory authorities to which he is subject to, after taking the proposed transfer into account;
- (d) Where transactions, accounts, or customer relationships are being transferred from an overseas branch of a bank licensee, or the transferee is an overseas conventional bank licensee, the relevant overseas regulatory authority has been consulted about the proposed transfer, the law of that jurisdiction provides for the possibility of such a transfer, and the relevant supervisory authority in that jurisdiction has agreed to the transfer;
- (e) The transfer will not breach any applicable laws and regulations, and will not create any supervisory concerns;
- (f) The business transferred is not prohibited by the CBB; and
- (g) There are no material adverse consequences from the transfer on the transferee or the security of customers and creditors and their rights and obligations are protected.



<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR 4: Business Transfers</b>

### GR-4.3 Determination of Application (continued)

- GR-4.3.3 In assessing the criteria outlined in Paragraph GR-4.3.2, the CBB will, amongst other factors, take into account the financial strength of the transferee; its capacity to manage the business being transferred; its track record in complying with applicable regulatory requirements; and (where applicable) its track record in treating customers fairly. The CBB will also take into account the impact of the transfer on the transferor, and any consequences this may have for the transferor's remaining customers.
- GR-4.3.4 The CBB will review the application and any other documents or information requested by the CBB taking into consideration any objections received and conditions stated in Article 66 (d) of the CBB law.
- GR-4.3.5 The CBB reserves the right to impose additional requirements if, in the opinion of the CBB, additional requirements are necessary to protect customer interests. In all cases where additional requirements are imposed, the CBB shall state the reasons for doing so.
- GR-4.3.6 The CBB will communicate its final decision to the transferor within 5 working days of the expiry of the period for submitting objections to the CBB (see Paragraph GR-4.2.4).



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR 4:</b>	<b>Business Transfers</b>

## GR-4.4 CBB Decision

GR-4.4.1 In accordance with Article 67 (d) of the CBB Law and Article 8 of the Regulation issued pursuant to Resolution No.(33) of 2012, the CBB's decision regarding the application for transfer made under Section GR-4.2, will be published as a notice in the Official Gazette and in two local newspapers (one in Arabic and one in English) and will come into effect from this date.

GR-4.4.2 If the liabilities are located in a jurisdiction outside Bahrain, the CBB may also publish such notice in the jurisdiction in which the risk is situated.

**GR-4.4.3** **The costs of publication of the notices referred to in Paragraphs GR-4.4.1 and GR-4.4.2 must be met by the transferor.**

GR-4.4.4 Article 67(e) of the CBB Law notes that where the application for business transfer has been turned down by the CBB or includes restrictions, the applicant may appeal to a competent court within 30 calendar days from the date of publication referred to in Paragraph GR-4.4.1.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-5:</b>	<b>Controllers</b>

## GR-5.1 Key Provisions

GR-5.1.1 Condition 3 of the CBB’s licensing conditions specifies, among other things, that conventional bank licensees must satisfy the CBB that their controllers are suitable and pose no undue risks to the licensee (See Paragraph LR-2.3.1). There are also certain procedures which are set out in Articles 52 to 56 of the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006) (“CBB Law”) on controllers. Licensees and their controllers must also observe the CBB’s Capital Markets requirements in respect of changes in holdings of shares of listed companies. There are differing requirements for locally incorporated licensees (“Bahraini conventional bank licensees”) and branches of foreign banks (“overseas conventional bank licensees”). The requirements of this Chapter apply in their entirety to Bahraini conventional bank licensees. Requirements for overseas conventional bank licensees are less onerous and are outlined in Paragraph GR-5.1.10.

GR-5.1.2 There are strict limits on changes in the holdings of shares held by controllers in Bahraini conventional bank licensees or the extent of voting control exercised by controllers in Bahraini conventional bank licensees. These limits are outlined in Section GR-5.3. Failure to observe these limits may lead to imposition of enforcement provisions of the Rulebook on the licensee and other penalties on the controller under the provisions of the CBB Law as outlined in Paragraph GR-5.1.1, including loss of voting power or transfer of shares.

GR-5.1.3 The approval provisions outlined in Paragraphs GR-5.1.4 and GR-5.1.5 do not apply to existing holdings or existing voting control by controllers already approved by the CBB. The approval provisions apply to new/prospective controllers or to increases in existing holdings/voting control as outlined in Paragraphs GR-5.1.4 and GR-5.1.5, following the issuance of Regulation No.(31) for the year 2008.

**GR-5.1.4** Applicants seeking control of a conventional bank license must provide details of their intended control, by submitting a duly completed Form 2 (Application for authorisation of controller). (See Subparagraph LR-3.1.5(a)).





MODULE	GR:	General Requirements
CHAPTER	GR-5:	Controllers

## GR-5.1 Key Provisions (continued)

### GR-5.1.5

For purposes of Paragraph GR-5.1.4, prior approval from the CBB must be obtained when any of the following changes relating to controllers (as defined in Section GR-5.2 and subject to the limits as outlined in Section GR-5.3) apply:

- (a) A new controller;
- (b) An existing controller increasing its holding from above 10% and up to and including 20% of issued and paid up share capital;
- (c) An existing controller increasing its holding from above 20% and up to and including 30% of issued and paid up share capital;
- (d) An existing controller increasing its holding from above 30% and up to and including 40% of issued and paid up share capital; or
- (e) An existing controller increasing its holding to above 40% of the issued and paid up share capital of an unlisted bank. In this instance, the controller must be a regulated legal person.

### GR-5.1.6

For approval under Paragraph GR-5.1.5 to be granted, the CBB must be satisfied that the proposed controller or increase in control poses no undue risks to the licensee. The CBB will therefore consider or reconsider the criteria outlined in Paragraphs GR-5.3.6 to GR-5.3.8 in any request for approval. The CBB may impose any restrictions that it considers necessary to be observed in case of its approval of a new controller, or any of the changes listed to existing controllers in Paragraph GR-5.1.5. These restrictions will include the applicable maximum allowed limit of holding or control (as outlined in Section GR-5.3). A duly completed Form 2 (Controllers) must be submitted as part of the request for a change in controllers. An approval of controller will specify the applicable period for effecting the proposed acquisition of shares.

### GR-5.1.7

If, as a result of circumstances outside the conventional bank licensee's knowledge and/or control, one of the changes specified in Paragraph GR-5.1.5 is triggered prior to CBB approval being sought or obtained, the conventional bank licensee must notify the CBB as soon as it becomes aware of the fact.

### GR-5.1.8

Conventional bank licensees are required to notify the CBB as soon as they become aware of events that are likely to lead to changes in their controllers.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-5:</b>	<b>Controllers</b>

## GR-5.1 Key Provisions (continued)

GR-5.1.8A The criteria by which the CBB assesses the suitability of controllers are set out in Section GR-5.3.

GR-5.1.8B Within 30 days of receiving all required documentation for an application for authorisation for control, the CBB will issue its decision in writing to the applicant. The CBB may extend the period to review the completed application for no more than three months from the date where all required documentation has been submitted.

**GR-5.1.9** Conventional bank licensees must submit, within 3 months of their financial year-end, a report on their controllers. This report must identify all controllers of the licensee, as defined in Section GR-5.2 and the extent of their shareholding interests.

**GR-5.1.10** In the case of overseas conventional bank licensees, the CBB must be notified of any new significant ownership in excess of 50% of the issued share capital of the concerned bank as soon as the branch becomes aware of the new significant ownership. The concerned branch must provide a copy of the relevant approval by the home supervisor of the concerned bank. No other action is necessary unless the CBB makes a subsequent request for information or issues a formal direction. The CBB reserves the right to take any appropriate actions, including withdrawal of the license.



MODULE	GR:	General Requirements
CHAPTER	GR-5:	Controllers

## GR-5.2 Definition of Controller

### GR-5.2.1

A controller of a conventional bank licensee is a natural or legal person who either alone, or with his associates:

- (a) Holds 10% or more of the issued and paid up share capital in the licensee ("L"), or is able to exercise (or control the exercise of) 10% or more of the voting power in L; or
- (b) Holds 10% or more of the issued and paid up share capital in a parent undertaking ("P") of L, or is able to exercise (or control the exercise of) 10% or more of the voting power in P; or
- (c) Is able to exercise significant influence over the management of L or P.

### GR-5.2.2

For the purposes of Paragraph GR-5.2.1, "associate" includes:

- (a) The spouse, son(s) or daughter(s) of a controller;
- (b) An undertaking of which a controller is a Director;
- (c) A person who is an employee or partner of the controller; and
- (d) If the controller is a legal person, a Director of the controller, a subsidiary of the controller, or a Director of any subsidiary undertaking of the controller.

### GR-5.2.3

Associate also includes any other person or undertaking with which the controller has entered into an agreement or arrangement as to the acquisition, holding or disposal of shares or other interests in the conventional bank licensee, or under which they undertake to act together in exercising their voting power in relation to the conventional bank licensee.



MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

### GR-5.3 Suitability of Controllers

#### GR-5.3.1

All new controllers or prospective controllers (as defined in Section GR-5.2) of a Bahraini conventional bank licensee must obtain the approval of the CBB. Any increases to existing controllers' holdings or voting control (as outlined under paragraph GR-5.1.5) must also be approved by the CBB and are subject to the conditions outlined in this Section. Such changes in existing controllers (as defined in the Section GR-5.2) or new/prospective controllers of a conventional bank licensee must satisfy the CBB of their suitability and appropriateness according to the criteria outlined in Paragraphs GR-5.3.6 to GR-5.3.8. The CBB will issue an approval notice or notice of refusal of a controller according to the approval process outlined in Section GR-5.4 and Paragraph GR-5.1.6.

#### GR-5.3.2

All controllers or prospective controllers (whether natural or legal persons) of all conventional bank licensees are subject to the approval of the CBB. Persons who intend to take ownership stakes of 10% or above of the voting capital of a Bahraini conventional bank licensee are subject to enhanced scrutiny, given the CBB's position as home supervisor of such licensees. The level of scrutiny and the criteria for approval become more onerous as the level of proposed ownership increases. Existing and prospective controllers should therefore take particular note of the requirements of Paragraphs GR-5.3.3 to GR-5.3.8 if they wish to take more substantial holdings or control.

As a matter of policy, the CBB distinguishes between regulated legal persons (i.e. financial institutions) and unregulated legal persons and natural persons as controllers. Regulated legal persons must satisfy home country prudential requirements. As a regulated legal person can own a greater percentage of issued and paid up share capital, it is subject to additional conditions as outlined in Paragraph GR-5.3.8. The CBB may also contact the home regulators for information on the "fit & proper" status of the applicant.

#### GR-5.3.3

A natural person will not be allowed to own or control more than 15% of the voting capital of a Bahraini conventional bank licensee. Such person must satisfy the conditions in Paragraph GR-5.3.6 below.

#### GR-5.3.4

An unregulated legal person (including companies, trusts, partnerships) will not be allowed to own or control more than 20% of the voting capital of a Bahraini conventional bank licensee. All such persons must satisfy the conditions in Paragraph GR-5.3.7 below.



MODULE	GR:	General Requirements
CHAPTER	GR-5:	Controllers

### GR-5.3 Suitability of Controllers (continued)

#### GR-5.3.5

A regulated legal person will not be allowed to own or control more than 40% of the voting capital of a Bahraini conventional bank licensee. However, the 40% limit does not apply to unlisted Bahraini conventional bank licensees (where up to 100% of the issued and paid up share capital may be acquired) or to mergers which have been approved by the CBB.

#### GR-5.3.5A

In respect of applications for bank licenses, after 1<sup>st</sup> October 2011, at least one controller must be a regulated financial institution holding at least 20% of the proposed licensee's shares.



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<b>CHAPTER</b>	<b>GR-5:</b>	<b>Controllers</b>

### GR-5.3 Suitability of Controllers (continued)

- GR-5.3.6 In assessing the suitability and the appropriateness of new/prospective controllers (and existing controllers proposing to increase their shareholdings) who are natural persons, CBB has regard to their professional and personal conduct, including, but not limited to, the following:
- (a) The propriety of a person's conduct, whether or not such conduct resulted in conviction for a criminal offence, the contravention of a law or regulation, or the institution of legal or disciplinary proceedings;
  - (b) A conviction or finding of guilt in respect of any offence, other than a minor traffic offence, by any court or competent jurisdiction;
  - (c) Any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance or other misconduct in connection with the formation or management of a corporation or partnership;
  - (d) Whether the person has been the subject of any disciplinary proceeding by any government authority, regulatory agency or professional body or association;
  - (e) The contravention of any financial services legislation or regulation;
  - (f) Whether the person has ever been refused a license, authorisation, registration or other authority;
  - (g) Dismissal or a request to resign from any office or employment;
  - (h) Disqualification by a court, regulator or other competent body, as a Director or as a manager of a corporation;
  - (i) Whether the person has been a Director, partner or manager of a corporation or partnership which has gone into liquidation or administration or where one or more partners or managers have been declared bankrupt whilst the person was connected with that partnership or corporation;
  - (j) The extent to which the person has been truthful and open with regulators;
  - (k) Whether the person has ever been adjudged bankrupt, entered into any arrangement with creditors in relation to the inability to pay due debts, or failed to satisfy a judgement debt under a court order or has defaulted on any debts; and
  - (l) The person's track record as a controller of, or investor in financial institutions.
  - (m) The financial resources of the person and the likely stability of their shareholding;
  - (n) Existing Directorships or ownership of more than 20% of the capital or voting rights of any financial institution in the Kingdom of Bahrain or elsewhere, and the potential for conflicts of interest that such Directorships or ownership may imply;
  - (o) The legitimate interests of depositors, creditors and minority shareholders of the licensee;
  - (p) If the approval of a person as a controller is or could be detrimental to the subject licensee, Bahrain's banking and financial sector or the national interests of the Kingdom of Bahrain; and
  - (q) Whether the person is able to deal with existing shareholders and the board in a constructive and co-operative manner.



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### GR-5.3 Suitability of Controllers (continued)

GR-5.3.7 In assessing the suitability and appropriateness of legal persons as controllers (wishing to increase their shareholding) or new/potential controllers, CBB has regard to their financial standing, judicial and regulatory record, and standards of business practice and reputation, including, but not limited to, the following:

- (a) The financial strength of the person, its parent(s) and other members of its group, its implications for the conventional bank licensee and the likely stability of the person's shareholding;
- (b) Whether the person or members of its group have ever entered into any arrangement with creditors in relation to the inability to pay due debts;
- (c) The person's jurisdiction of incorporation, location of Head Office, group structure and connected counterparties (as defined in CM-5.5.10) and the implications for the conventional bank licensee as regards effective supervision of the conventional bank licensee and potential conflicts of interest;
- (d) The person's (and other group members') propriety and general standards of business conduct, including the contravention of any laws or regulations including financial services legislation on regulations, or the institution of disciplinary proceedings by a government authority, regulatory agency or professional body;
- (e) Any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance or other misconduct;
- (f) Any criminal actions instigated against the person or other members of its group, whether or not this resulted in an adverse finding;
- (g) The extent to which the person or other members of its group have been truthful and open with regulators and supervisors.
- (h) Whether the person has ever been refused a licence, authorisation, registration or other authority.
- (i) The person's track record as a controller of, or investor in financial institutions.
- (j) The legitimate interests of depositors, creditors and shareholders of the licensee;
- (k) Whether the approval of a controller is or could be detrimental to the subject licensee, Bahrain's banking and financial sector or the national interests of the Kingdom of Bahrain;
- (l) Whether the person is able to deal with existing shareholders and the board in a constructive manner; and
- (m) Existing Directorships or ownership of more than 20% of the capital or voting rights of any financial institution in the Kingdom of Bahrain or elsewhere, and the potential for conflicts of interest that such Directorships or ownership may imply.



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### GR-5.3 Suitability of Controllers (continued)

#### GR-5.3.8

Regulated financial institutions wishing to acquire more than 10% of the voting capital of a Bahraini conventional bank licensee must observe the following additional conditions:

- (a) The person must be subject to effective consolidated supervision by a supervisory authority which effectively implements the Basel Core Principles, or the IOSCO Principles or the IAIS Principles as well as the FATF Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation;
- (b) The home supervisor of the person must give its formal written prior approval for (or otherwise raise no objection to) the proposed acquisition of the Bahraini conventional bank licensee;
- (c) The home supervisor of the person must confirm to the CBB that it will require the person to consolidate the activities of the concerned Bahraini conventional bank licensee for regulatory and accounting purposes if the case so requires;
- (d) The home supervisor of the person must formally agree to the exchange of customer information between the person and its prospective Bahraini subsidiary/acquisition for AML/CFT purposes and for Large Exposures monitoring purposes;
- (e) The home supervisor of the person and the CBB must (if not already in place) conclude a Memorandum of Understanding in respect of supervisory responsibilities, exchange of information and mutual inspection visits;
- (f) The person must provide an acceptably worded letter of guarantee to the CBB in respect of its obligation to support the licensee; and
- (g) The Bahraini conventional bank licensee will be subject to the provisions of Chapter CM-5 in respect of exposures to its controller.





<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR-5:</b>	<b>Controllers</b>

## GR-5.4 Approval Process

- GR-5.4.1 Within 3 months of receipt of an approval request under Paragraph GR-5.1.4, the CBB will issue in writing to the applicant and the bank, an approval notice (with or without restrictions) or a written notice of refusal if it is not satisfied that the person concerned is suitable to increase his shareholding in, or become a controller of the conventional bank licensee. The notice of refusal or notice of approval with conditions will specify the reasons for the objection or restriction and specify the applicant's right of appeal in either case. Where an approval notice is given, it will specify the period for which it is valid and any conditions that attach (see Paragraph GR-5.1.6). These conditions will include the maximum permitted limit of holding or voting control exercisable by the controller.
- GR-5.4.2 Notices of refusal have to be approved by an Executive Director of the CBB. The applicant has 30 calendar days from the date of the notice in which to make written representation as to why his application should not be refused. The CBB then has 30 calendar days from the date of receipt of those representations to reconsider the evidence submitted and make a final determination, pursuant to Article 53 of the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006) ("CBB Law") and Module EN (Enforcement).
- GR-5.4.3 Pursuant to Article 56 of the CBB Law, where a person has become a controller by virtue of his shareholding in contravention of Paragraph GR-5.1.5, or a notice of refusal has been served to him under Paragraph GR-5.4.1 and the period of appeal has expired, the CBB may, by notice in writing served on the person concerned, direct that his shareholding shall be transferred or until further notice, no voting right shall be exercisable in respect of those shares.
- GR-5.4.4 Article 56 of the CBB Law empowers the CBB to request a court of law to take appropriate precautionary measures, or sell such shares mentioned in Paragraph GR-5.4.3, if the licensee fails to carry out the order referred to in the preceding Paragraph.



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR 6:</b>	<b>[This Chapter has been left blank.]</b>

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MODULE	GR:	General Requirements
CHAPTER	GR 7:	Cessation of Business

## GR-7.1 CBB Approval

### GR-7.1.1

As specified in Article 50 of CBB Law, a conventional bank licensee wishing to cease to provide or suspend any or all of the licensed regulated services, completely or at any of its branches, must obtain prior written approval from the CBB, setting out how it proposes to do so and, in particular, how it will treat any deposits that it holds.

### GR-7.1.2

[This Paragraph was deleted in October 2011].

### GR-7.1.3

If the conventional bank licensee wishes to liquidate its business, the CBB will revise its license to restrict the firm from entering into new business. The licensee must continue to comply with all applicable CBB requirements until such time as it is formally notified by the CBB that its obligations have been discharged and that it may surrender its license.

### GR-7.1.4

In the case of a Bahraini conventional bank licensee, Chapter GR-7 applies both to its business booked in Bahrain and the licensee's overseas branches. In the case of an overseas conventional bank licensee, Chapter GR-7 applies only to business booked in the licensee's Bahrain branch.

### GR-7.1.5

Licensees seeking to obtain the CBB's permission to cease business must apply to the CBB in writing, in the form of a formal request together with supporting documents. Unless otherwise directed by the CBB, the following information/documentation must be provided in support of the request:

- (a) Full details of the business to be terminated;
- (b) The rationale for the cessation;
- (c) How the conventional bank licensee proposes to cease business;
- (d) Notice of an extraordinary shareholder meeting setting out the agenda to discuss and approve the cessation, and inviting the CBB for such meeting;
- (e) Evidence that the proposed cessation has been duly authorised by the conventional bank licensee (such as a certified copy of a Board resolution approving the cessation);



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## GR-7.1 CBB Approval (continued)

- (f) Formal request to the CBB for the appointment of a liquidator acceptable to the CBB;
- (g) A cut-off date by which the conventional bank licensee will stop its operations;
- (h) If the conventional bank licensee wishes to cease its whole business, confirmation that the conventional bank licensee will not enter into new business with effect from the cut-off date;
- (i) If applicable, an assessment of the impact of the cessation on any customers directly affected by the cessation, and any mitigating factors or measures; and
- (j) If applicable, an assessment of the impact of the cessation on the conventional bank licensee's remaining business and customers, and any mitigating factors or measures.

GR-7.1.6 Conventional bank licensees intending to apply to cease business are advised to contact the CBB at the earliest opportunity, prior to submitting a formal application, in order that the CBB may determine the nature and level of documentation to be provided and the need for an auditor or other expert opinion to be provided to support the application. The information/documentation specified in Paragraph GR-7.1.5 may be varied by the CBB, depending on the nature of the proposed cessation, such as the materiality of the business concerned and its impact on customers.

GR-7.1.7 Approval to cease business will generally be given where adequate arrangements have been made to offer alternative arrangements to any affected customers. The CBB's approval may be given subject to any conditions deemed appropriate by the CBB. In all cases where additional requirements are imposed, the CBB shall state the reasons for doing so.



MODULE	GR:	General Requirements
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## GR-7.1 CBB Approval (continued)

### GR-7.1.8

A conventional bank licensee in liquidation must continue to meet its contractual and regulatory obligations to depositors, other clients and creditors.

### GR-7.1.9

[This Paragraph was deleted in October 2011].

### GR-7.1.10

[This Paragraph was deleted in October 2011].

### GR-7.1.11

[This Paragraph was deleted in October 2011].



<b>MODULE</b>	<b>GR:</b>	<b>General Requirements</b>
<b>CHAPTER</b>	<b>GR 8:</b>	<b>CBB Fees</b>

[This Chapter has been transferred to Module LR.]