



LICENSING REQUIREMENTS MODULE



MODULE:	LR (Licensing Requirements)
Table of Contents	

		Date Last Changed
LR-A	Introduction	
	LR-A.1 Purpose	07/2012
	LR-A.2 Module History	07/2012
LR-B	Scope of Application	
	LR-B.1 Scope and Prohibitions	01/2012
	LR-B.2 [merged with LR-B.1]	10/2007
LR-1	Requirement to Hold a License	
	LR-1.1 Conventional Bank Licensees	10/2010
	LR-1.2 License Sub-Categories	07/2012
	LR-1.3 Definition of Regulated Banking Services	10/2010
	LR-1.4 Shari'a Compliant Transactions	07/2011
LR-1A	Approved Persons	
	LR-1A.1 CBB Notification and Approval	07/2012
	LR-1A.2 'Fit and Proper' Requirement	07/2012
	LR-1A.3 Interpretative Guidance on 'Fit and Proper'	07/2012
LR-2	Licensing Conditions	
	LR-2.1 Condition 1: Legal Status	10/2010
	LR-2.2 Condition 2: Mind and Management	10/2010
	LR-2.3 Condition 3: Controllers	07/2006
	LR-2.4 Condition 4: Board and Employees	10/2010
	LR-2.5 Condition 5: Financial Resources	07/2009
	LR-2.6 Condition 6: Systems and Controls	07/2006
	LR-2.7 Condition 7: External Auditor	10/2010
	LR-2.8 Condition 8: Other Requirements	07/2012
LR-3	Information Requirements and Processes	
	LR-3.1 Licensing	07/2012
	LR-3.2 Variations to a License	10/2010
	LR-3.3 Withdrawal of a License or Closure of a Branch	10/2011
LR-4	License Fees	
	LR-4.1 License Application Fees	10/2010
	LR-4.2 Annual License Fees	07/2012



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.1 Purpose

Executive Summary

LR-A.1.1 The Licensing Requirements Module sets out the Central Bank of Bahrain's ('CBB's) approach to licensing providers of regulated conventional banking services in the Kingdom of Bahrain.

Legal Basis

LR-A.1.2

This Module contains the CBB's Regulations and Directive (as amended from time to time) relating to Licensing Requirements and is issued under the powers available to the CBB under Articles 38 to 41, 44 to 48 and 180 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It also includes the requirements contained in Resolution No (1) of 2007 (as amended from time to time) with respect to determining fees categories due for licensees and services provided by the CBB. The Module also contains requirements under Regulation No (1) of 2007 pertaining to the CBB's regulated services issued under Article 39 of the CBB Law and those conditions of granting a license for the provision of regulated services as prescribed under Resolution No.(43) of 2011 and issued under the powers available to the CBB under Article 44(c). The Directive and Resolutions in this Module are applicable to all conventional bank licensees (including their approved persons).

LR-A.1.2A For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

LR-A.1.3 Persons wishing to undertake regulated banking services are required to be licensed by the CBB as a conventional bank licensee. Regulated banking services consist of two determinant activities undertaken in combination – deposit-taking and providing credit. In addition, various supplementary regulated activities may also be undertaken. These activities are defined in Rule LR-1.3.1.

LR-A.1.4

In other words, persons wishing to undertake deposit-taking must also undertake the activity of providing credit. In addition, they may undertake any of the other activities falling within the definition of regulated banking services. Deposit-taking may not be undertaken on its own, without the activity of providing credit also being undertaken. Persons wishing to provide credit without undertaking deposit-taking may qualify as a finance company, a Category of specialised licensee (see separate regulations regarding these: they will fall under Volume 5 of the CBB Rulebook, when issued in 2011).



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.1 Purpose (continued)

License Categories

- LR-A.1.5 Conventional bank licensees are divided into two sub-categories: conventional retail banks and conventional wholesale banks. Certain specific regulatory requirements may differ between these two sub-categories, where appropriate to address their different risk profiles. (See Section LR-1.2.)
- LR-A.1.6 Conventional retail banks may undertake transactions in any currency, with both Bahraini residents and non-residents. To qualify as a conventional retail bank, the activity of providing credit must account for a significant portion of the institution's business (defined, broadly, as accounting for over 20% of an institution's assets – See Paragraphs LR-1.2.4-8).
- LR-A.1.7 Conventional wholesale banks may also undertake transactions without restriction, when dealing with the Government of Bahrain and its agencies; CBB bank licensees; and non-residents. However, they may only undertake transactions denominated in Bahraini Dinar and/or with a resident of the Kingdom of Bahrain, if these are wholesale in nature. Wholesale transactions are defined in terms of transaction size (broadly, BD 7 million or more for a credit or deposit transaction, and US\$ 100,000 or more for an investment transaction – See Paragraphs LR-1.2.9-26).
- LR-A.1.8 Collectively, licensed providers of regulated banking services are called conventional bank licensees. Bahrain-incorporated conventional bank licensees are called Bahraini conventional bank licensees. Conventional bank licensees that are incorporated in an overseas jurisdiction and operate via a branch presence in the Kingdom of Bahrain are called overseas conventional bank licensees. The same naming convention applies to the two sub-categories of conventional bank license: thus, Bahraini conventional retail banks and Bahraini conventional wholesale banks are those incorporated in Bahrain, whilst overseas conventional retail banks and overseas conventional wholesale banks are those incorporated in an overseas jurisdiction and operating in Bahrain via a branch presence.
- LR-A.1.9 Conventional bank licensees may not hold themselves out as an Islamic bank. They may nonetheless enter into Shari'a compliant transactions, subject to certain restrictions outlined in Section LR-1.4.

Licensing Conditions

- LR-A.1.10 Conventional bank licensees are subject to 8 licensing conditions, mostly specified at a high-level in Module LR, and further expanded in underlying subject Modules (such as Module CA). These licensing conditions are broadly equivalent to the standards applied in other Volumes of the CBB Rulebook, to other license categories, and are consistent with international good practice, such as relevant Basel Committee standards.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.1 Purpose (continued)

LR-A.1.11

The requirements contained in Chapter LR-2 represent the minimum conditions that have to be met in each case, both at the point of licensing and on an on-going basis thereafter, in order for licensed status to be retained.

Information Requirements and Processes

LR-A.1.12 Chapter LR-3 specifies the processes and information requirements that have to be followed for applicants seeking a conventional bank license, as well as existing licensees seeking to vary the scope of their license, by adding new regulated activities. It also covers the voluntary surrender of a license, or its cancellation by the CBB.

Representative Offices, Finance Companies and Ancillary Service Providers

LR-A.1.13 Representative offices of overseas conventional banks, and providers of ancillary services in the financial sector are not covered in Volume 1 (Conventional Banks) of the Rulebook. Requirements covering representative offices (for all financial services firms) and providers of ancillary services to the financial sector are included in Volume 5.

LR-A.1.14

Representative offices of overseas conventional banks are subject to requirements contained in Volume 5 (Specialised Licensees), common Modules and specific Modules for representative offices. Until such time as all parts of Volume 5 (Specialised Licensees) of the CBB Rulebook is issued, providers of ancillary services to the financial sector remain subject to the requirements contained in the CBB's "Standard Conditions and Licensing Criteria".

LR-A.1.15 [This paragraph was merged with paragraph LR-A.1.13 above in October 2007]

LR-A.1.16

[This paragraph was merged with paragraph LR-A.1.14 above in October 2007]

LR-A.1.17 This paragraph was deleted in October 2007.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.2 Module History

Evolution of Module

- LR-A.2.1 This Module (Module LR – “Licensing and Authorisation Requirements”) was first issued in July 2004, as part of the initial release of Volume 1 of the CBB Rulebook. It was subsequently reissued in full in July 2006 (and renamed “Licensing Requirements”).
- LR-A.2.2 The reissued Module was one of several Modules modified to reflect the introduction of the CBB’s new integrated license framework. Module LR was amended to reflect the new conventional bank licenses introduced by the framework, and to more closely align its presentation with that found in other CBB Rulebook volumes.
- LR-A.2.3 The reissued Module is dated July 2006. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made; Chapter UG-3 provides further details on Rulebook maintenance and version control.
- LR-A.2.3A When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 1 was updated in October 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.2 Module History (continued)

LR-A.2.4 A list of recent changes made to this Module is provided below:

Module Reference	Change Date	Description of Changes
LR-6	01/2005	New guidance on record-keeping.
Whole Module	07/2006	Whole Module reissued to reflect integrated license framework: new license categories and updated licensing conditions introduced.
LR-A.1.2	10/2007	New Rule LR-A.1.2 introduced, categorising this Module as a Directive.
LR-1.4	10/2007	New section added on Shari'a Compliant Transactions
LR-A.2.8	10/2007	Changes to provision of information requirements as result of CBB Law
LR-3	10/2007	Revised requirements due to new CBB Law
LR-4	10/2007	New Chapter LR-4 on application and license fees (incorporating material on fees previously contained in Module GR).
LR-2.5.10	04/2008	Minimum daily cash reserve balance with the CBB increased from 5% to 7%.
LR-1.2.16	04/2008	Lower threshold of \$100,000 for investment business transactions for wholesale banks
LR-2.5.10	07/2009	Minimum daily cash reserve balance with the CBB brought back to 5% from 7%.
LR	10/2010	Various minor amendments to ensure consistency in formatting of CBB Rulebook.
LR-A.1.2	10/2010	Revised legal basis.
LR-1A	10/2010	New Chapter on Approved Persons moved from Section HC-1.2 and from Paragraphs in Section HC-1.5.
LR-3.1.12A	10/2010	Added new paragraph, requiring capital to be injected prior to license being issued.
LR-3.1.15	10/2010	Additional details pertaining to information required, within 6 months of a license being issued.
LR-3.1.15A	10/2010	Transition rule added to comply with new requirement under Subparagraph HC-3.1.15(j).
LR-4.2.13	10/2010	Amendment to guidance.
LR	01/2011	Various minor amendments to ensure consistency in formatting of CBB Rulebook.
LR-A.1.2	01/2011	Clarified legal basis.
LR-3.1.5 and 3.1.5A	01/2011	Clarified the use of letters of guarantee as part of the licensing process.
LR-4.2.9A	01/2011	Added the requirement for annual fees for SPV's to be in line with the requirements of Resolution No (1) of 2007.
LR-A.1.4	04/2011	Corrected issue date.
LR-3.1.3	04/2011	Clarified the appointment of a representative as part of the licensing process.
LR-3.1.5(l)	04/2011	Deleted reference to Phase 1.
LR-4.2.9A	04/2011	Clarified the payment of annual license fees for SPVs.
LR-1.4.6	07/2011	Added Paragraph concerning Shari'a compliant financing contracts for the purchase of land and property.
LR-2.8.1	07/2011	Updated language to reflect current terminology.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-A:	Introduction

LR-A.2 Module History (continued)

LR-A.2.4 (continued):

Module Reference	Change Date	Description of Changes
LR-A.1.2	10/2011	New reference added to reflect the issuance of Resolution No.(43) of 2011.
LR-3.3	10/2011	Clarified language on cancellation of a license or closure of a branch to be in line with other Volumes of the CBB Rulebook.
LR-1A.1.23	04/2012	Last sentence of Paragraph deleted as cross reference no longer applies.
LR-A.1.2	07/2012	Added reference to Regulation No 1 of 2007 pertaining to regulated services.
LR-A.1.13 and LR-A.1.14	07/2012	Amended Paragraphs to reflect updates for Volume 5
LR-B.1.3	07/2012	Corrected cross-reference.
LR-1.2.10	07/2012	Reference to 'other banks' deleted.
LR-1A.1.20	07/2012	Changed Guidance to Rule.
LR-1A.2.4	07/2012	Added cross-reference.
LR-1A.3.3	07/2012	Corrected cross-reference.
LR-2.8.1 and LR-2.8.2	07/2012	Attributed reference to CBB Law to correct Paragraph.
LR-3.1.18	07/2012	Corrected cross-reference.
LR-4.2.9B	07/2012	Added guidance regarding annual fees of SPVs of Bahrain domiciled CIUs.

LR-A.2.5 [This paragraph was deleted in October 2007]



MODULE	LR:	Licensing Requirements
CHAPTER	LR-B:	Scope of Application

LR-B.1 Scope and Prohibitions

- LR-B.1.1 The licensing requirements in Chapter LR-1 have general applicability, in that they prevent any person from providing (or seeking to provide) regulated banking services within or from the Kingdom of Bahrain, unless they have been licensed as a conventional bank licensee by the CBB (see Rule LR-1.1.1).
- LR-B.1.2 In addition, no one may use the term ‘bank’ in their trading or corporate name, or otherwise hold themselves out to be a bank in Bahrain, unless they hold the appropriate license from the CBB (see Rule LR-1.1.2).
- LR-B.1.3 The remaining requirements in Chapters LR-1 to LR-4 (besides those mentioned in Section LR-B.1 above) apply to all those licensed by the CBB as a conventional bank licensee, or which are in the process of seeking such a license. They apply regardless of whether the person concerned is incorporated in the Kingdom of Bahrain, or in an overseas jurisdiction, unless otherwise specified.
- LR-B.1.4 These remaining requirements prescribe the types of license offered; their associated operating conditions; the licensing conditions that have to be satisfied in order to secure and retain a license; and the processes to be followed when applying or varying a license, or when a license is withdrawn.
- LR-B.1.5 The Rules referred to above are supported by statutory restrictions contained in the CBB Law (cf. Articles 39 to 41 and 44 to 51).



MODULE	LR:	Licensing Requirements
CHAPTER	LR-B:	Scope of Application

LR-B.2 [This section was merged with section LR-B.1 in October 2007]



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.1 Conventional Bank Licensees

General Prohibitions

LR-1.1.1

No person may:

- (a) Undertake (or hold themselves out to undertake) regulated banking services within or from the Kingdom of Bahrain unless duly licensed by the CBB; or
- (b) Hold themselves out to be licensed by the CBB unless they have as a matter of fact been so licensed.

LR-1.1.2

According to Article 41(a) of the CBB Law, only persons licensed to undertake regulated banking services (or regulated Islamic banking services), may use the term ‘bank’ in their corporate or trading names, or otherwise hold themselves out to be a bank.

LR-1.1.3

Licensees are not obliged to include the word ‘bank’ in their corporate or trading names; however, they **are** required to make clear their regulatory status in their letter heads, customer communications, website and so on.

LR-1.1.4

For the purposes of Rule LR-1.1.2, persons will be considered in breach of this requirement if they attempt to operate as, or incorporate a bank in Bahrain with a name containing the word “bank” (or the equivalents in any language), without holding the appropriate CBB license or obtaining the prior approval of the CBB.

Licensing

LR-1.1.5

Persons wishing to be licensed to undertake regulated banking services within or from the Kingdom of Bahrain must apply in writing to the CBB.

LR-1.1.6

An application for a license must be in the form prescribed by the CBB and must contain:

- (a) A business plan specifying the type of business to be conducted;
- (b) Application forms for all controllers; and
- (c) Application forms for all controlled functions.

LR-1.1.7

The CBB will review the application and duly advise the applicant in writing when it has:

- (a) Granted the application without conditions;
- (b) Granted the application subject to conditions specified by the CBB; or
- (c) Refused the application, stating the grounds on which the application has been refused and the process for appealing against that decision.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.1 Conventional Bank Licensees (continued)

LR-1.1.8 Detailed rules and guidance regarding information requirements and processes for license applications can be found in Section LR-3.1. As specified in Paragraph LR-3.1.14, the CBB will provide a formal decision on a license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the CBB.

LR-1.1.9 In granting new licenses, the CBB will specify the specific types of regulated banking service for which a license has been granted, and on what basis (i.e. conventional retail bank or conventional wholesale bank).

LR-1.1.10 All applicants for conventional bank licenses must satisfy the CBB that they meet, by the date of their license, the minimum conditions for licensing, as specified in Chapter LR-2. Once licensed, conventional bank licensees must maintain these criteria on an on-going basis.

LR-1.1.11 Conventional bank licensees must not carry on any commercial business in the Kingdom of Bahrain or elsewhere other than banking business and activities directly arising from or incidental to that business.

LR-1.1.12 Rule LR-1.1.11 is intended to restrict bank licensees from undertaking any material non-financial business activities. The Rule does not prevent a bank undertaking commercial activities if these directly arise from their financial business: for instance, in the context of Islamic contracts, such as murabaha, ijara and musharaka, where the bank may hold the physical assets being financed or leased. Nor does it restrict a bank from undertaking commercial activities if, in the judgement of the CBB, they are incidental and do not detract from the financial nature of the bank's operations: for example, a bank may rent out spare office space in its own office building, and provide services associated with the rental (e.g. office security or cleaning).

LR-1.1.13 Rule LR-1.1.11 applies to the legal entity holding the bank license. A bank may thus own subsidiaries that undertake non-financial activities, although the CBB generally does not support the development of significant commercial activities within a banking group. Capital invested in such subsidiaries by a bank would be deducted from the bank's capital base under the CBB's capital rules (see Module CA). In addition, the CBB may impose restrictions – such as dealings between the bank and its commercial subsidiaries – if it was felt necessary to limit the bank's exposure to non-financial risks.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.2 License Sub-Categories

Retail vs. Wholesale

LR-1.2.1

Depending on the nature of activities undertaken, conventional bank licensees must be licensed either as a conventional retail bank or as a conventional wholesale bank.

LR-1.2.2

The nature of activities allowed under each license sub-Category is specified below (cf. Rule LR-1.2.4 and the following Paragraphs. The conventional retail bank Category replaces the Full Commercial Bank (conventional principles) Category that existed prior to July 2006; the conventional wholesale bank Category replaces the Offshore Banking Unit and Investment Bank License (conventional principles) categories.

LR-1.2.3

Banks licensed prior to the introduction of these new license categories in July 2006 are not required to reapply for their license. Rather, their new license Category is confirmed by an exchange of letters with the CBB, and the issuance of a new license certificate. Where (prior to July 2006) the same legal entity holds multiple licenses, CBB will agree transitional measures aimed at rationalizing the number of licenses held.

Conventional Retail Banks

LR-1.2.4

Conventional retail banks are allowed to transact with both residents and non-residents of the Kingdom of Bahrain, and in both Bahrain Dinar and foreign currencies.

LR-1.2.5

To qualify as a conventional retail bank, the person concerned must undertake (as a minimum), the activities of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18). The activity of providing credit must be a significant part of the bank's business, relative to other activities.

LR-1.2.6

When assessing the significance of credit-related activities, in the context of Rule LR-1.2.5, the CBB would normally expect to see loans and other credit-related activity (such as overdraft facilities, loan commitments, letters of credit, guarantees and other activities falling under the definition of providing credit), to constitute at least 20% of the total assets of the institution. Other activities and criteria may also be taken into account, if the CBB believes they are of a credit-related nature, and that such activities constitute a significant share of the bank's overall business.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.2 License Sub-Categories (continued)

Conventional Retail Banks (continued)

LR-1.2.7 In the case of new applicants, the above assessment is made based on the financial projections and business plan provided as part of the license application. Where existing licensees fail to satisfy the condition contained in Rule LR-1.2.5, the CBB will initiate discussion with the licensee as to the appropriateness of its license category: this may result in the licensee being required to change its license category. A branch of an overseas bank may nonetheless be allowed to hold a bank license in Bahrain, even if it fails to undertake the activities specified in Rule LR-1.2.5, providing that it undertakes other regulated banking services in Bahrain and its head office is licensed as a bank in its home country.

LR-1.2.8 The purpose of Rule LR-1.2.5 is to ensure that, besides deposit-taking, the core banking activity of providing credit forms part of the definition of conventional retail banks, and accounts for a significant share of their business, in keeping with their intermediation function.

Conventional Wholesale Banks

LR-1.2.9 Conventional wholesale banks are allowed to transact with residents of the Kingdom of Bahrain (irrespective of currency), and in Bahrain Dinar (irrespective of the location of the counterparty), subject to the conditions and exemptions specified in Rules LR-1.2.11, LR-1.2.13, LR-1.2.16 and LR-1.2.18. Foreign currency transactions with non-residents are not subject to these conditions.

LR-1.2.10 The effect of Rule LR-1.2.9 is to limit the on-shore/Bahrain Dinar customer business of conventional wholesale banks to larger transactions. By definition, their on-shore client base is therefore wholesale in nature (i.e. large corporates and high net-worth individuals).

LR-1.2.11 To qualify as a conventional wholesale bank, the person concerned must undertake (as a minimum), the activities of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18).

LR-1.2.12 The purpose of Rule LR-1.2.11 is to ensure that the core banking activities of deposit-taking and providing credit form part of the definition of conventional wholesale banks. However, unlike conventional retail banks, there is no requirement that the activity of providing credit must be a significant part of the bank's business, relative to other activities. This is to allow conventional wholesale banks greater flexibility as to the nature of their activities; it also recognises that, because of the wholesale nature of their client base, there is less need to limit the scale of non-credit related risks to which their depositors may be exposed. Rule LR-1.2.11 does not in any way prevent conventional wholesale banks from developing the provision of credit as a major activity, should they wish to. The Guidance provided in Paragraph LR-1.2.7 with regards to overseas banks is also applicable to Rule LR-1.2.11.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.13 Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (a) to (e) listed in Rule LR-1.3.1, only where the individual transaction is BD 7 million or above (or its foreign currency equivalent).

LR-1.2.14 To comply with Rule LR-1.2.13, the initial amount taken as a deposit must be BD 7 million or above (or its equivalent in foreign currency); however, subsequent additions and withdrawals from that deposit account may be for any amount. The initial amount taken as deposit may be split between different types of accounts (e.g. call, 3-month and 6-month accounts) – providing at least BD 7 million is taken from the customer on the same day and the bank's records can demonstrate this. Where subsequent withdrawals lead to a zero balance on an account (or the aggregate of accounts where more than one was originally opened), then a further BD 7 million must be deposited to re-start the 'wholesale' relationship, before additional deposits for smaller amounts may be made.

LR-1.2.15 Similarly, with respect to credit-related transactions, the initial facility amount advised must be for BD 7 million or above (or its equivalent); but drawdowns (and repayments) under the facility may be for any amount, as may any subsequent changes to the facility amount. If the facility is fully repaid, then a further BD 7 million transaction must be agreed in order to re-start the 'wholesale' relationship.

LR-1.2.16 Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (f) to (l) listed in Rule LR-1.3.1, only where the individual transaction is US\$ 100,000 or above (or its foreign currency equivalent).

LR-1.2.17 With respect to activities (f) and (g) (dealing in financial instruments as principal/agent), the threshold refers to the individual transaction size. With respect to activities (h) and (i) (managing/safeguarding financial instruments), the threshold refers to the initial investment amount. With respect to activity (j) (operating a collective investment scheme), the threshold refers to the minimum investment required for participation in the scheme. With respect to activities (k) and (l) (arranging deals in / advising on financial instruments), the threshold refers to the size of the deal arranged or of the investment on which advice is being given.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.18 Note that the threshold with respect to activities (h) and (i) applies to the initial investment amount: where a subsequent distribution to a client or a reduction in the mark to market value of the investment reduces the initial investment amount below US\$ 100,000, it is still considered a wholesale transaction. The threshold in Rule LR-1.2.16 applies to a client even if the same client satisfies the BD 7m threshold in Rule LR-1.2.13, with respect to deposit/credit activities. Finally, the initial amount taken as an investment may be split between two or more investment products - providing at least US\$ 100,000 is taken from the customer on the same day and the bank's records can demonstrate this.

LR-1.2.19 Conventional wholesale bank licensees may only undertake activities (m) and (n) listed in Rule LR-1.3.1, on behalf of residents of Bahrain and/or in Bahrain Dinar, where the customer concerned meets either of the thresholds specified in LR-1.2.13 or LR-1.2.16 (in which case, activities (m) and (n) may be undertaken for any amount).

LR-1.2.20 Notwithstanding Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19, conventional wholesale banks are allowed to transact in Bahrain Dinar (or any other currency) for any amount with the Government of Bahrain, Bahrain public sector entities (as defined in the Guidelines for completion of the Prudential Information Reports), and CBB bank licensees. Conventional wholesale banks may also transact in Bahrain Dinar for any amount, where required to fund their normal operating expenses; or when investing for their own account in securities listed on the Bahrain Stock Exchange.

LR-1.2.21 Any transactions entered into prior to 1 July 2006 which may be in breach of the conditions specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 must be notified to the CBB. These transactions will be allowed to mature.

LR-1.2.22 Since the conventional wholesale bank regime represents an easing of the restrictions on on-shore business that previously applied to offshore bank licensees (i.e. OBUs and IBLs), there should be few transactions of the type specified in Rule LR-1.2.21 – they are likely to exist only where individual ad-hoc exemptions may have been previously granted by the CBB, and these exemptions went further than those now being applied across the Board to all conventional wholesale bank licensees.

LR-1.2.23 Conventional wholesale banks must seek prior written CBB approval if they wish to undertake transactions of the type specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 if the transactions are below the thresholds mentioned in LR-1.2.13 or LR- 1.2.16.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.24 The approval requirement in Rule LR-1.2.23 only has to be made once, prior to the licensee starting to undertake such transactions. Its purpose is to allow the CBB to monitor the initiation of such business by conventional wholesale bank licensees, and to check that adequate systems and controls have been in place, so that such transactions are likely to be well managed. In addition, it is to allow, where relevant, for the necessary arrangements to be made to ensure that conventional wholesale banks comply with the CBB's reserve requirements (which apply to deposit liabilities denominated in Bahrain Dinars - see LR-2.5.10).

LR-1.2.25 Conventional wholesale banks that are unclear about the interpretation of the conditions specified in Rules LR-1.2.13, LR-1.2.16 or LR-1.2.19 must consult the CBB prior to undertaking the transaction concerned.

LR-1.2.26 The CBB may publish additional interpretative guidance on the above conditions, in response to licensees' queries. The minimum thresholds specified under Rules LR-1.2.13 and LR-1.2.16 will be kept under review by the CBB and may be amended in response to market developments.

Shari'a Compliant Transactions

LR-1.2.27 Conventional bank licensees may not hold themselves out as an Islamic bank. Conventional bank licensees may only enter into activities (c) to (e) listed in Rule LR-1.3.1, in accordance with the conditions outlined in Section LR-1.4.

LR-1.2.28 [This paragraph was deleted in October 2007]

LR-1.2.29 Conventional bank licensees may freely deal in financial instruments or operate a collective investment scheme that happens to be Shari'a compliant (because of the nature of the financial instruments concerned).



MODULE	LR: Licensing Requirements
CHAPTER	LR-1: Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services

LR-1.3.1

Regulated banking services are any of the following activities, carried on by way of business:

- (a) Deposit-taking;
- (b) Providing Credit;
- (c) Accepting Shari'a money placements/deposits;
- (d) Managing Shari'a profit/loss sharing investment accounts;
- (e) Offering Shari'a Financing Contracts;
- (f) Dealing in financial instruments as principal;
- (g) Dealing in financial instruments as agent;
- (h) Managing financial instruments;
- (i) Safeguarding financial instruments;
- (j) Operating a Collective Investment Undertaking;
- (k) Arranging deals in financial instruments;
- (l) Advising on financial instruments;
- (m) Providing money exchange/remittance services; or
- (n) Issuing/administering means of payment.

LR-1.3.2

Upon application, the CBB may exclude specific transactions from the definition of regulated banking services.

LR-1.3.3

The CBB will normally only consider granting such an exemption when a Bahrain resident is unable to obtain a specific product in Bahrain and it would be unreasonable to require the overseas provider of that product to be licensed for that specific transaction, and the provider has no intention of regularly soliciting such business in Bahrain.

LR-1.3.4

For the purposes of Rule LR-1.3.1, carrying on a regulated banking service by way of business means:

- (a) Undertaking the regulated banking service of (a), plus any of the activities (b) to (n), as defined in Section LR-1.3, for commercial gain;
- (b) Holding oneself out as willing and able to engage in such activities; or
- (c) Regularly soliciting other persons to engage in transactions constituting such activities.

LR-1.3.5

Licensees should note that they may still undertake activities falling outside the definition of regulated banking services, such as investing in physical commodities – subject to Rule LR-1.1.11. The fact that an activity is not included in the definition of regulated banking services does not mean that it is prohibited. In transitioning to the new licensing framework, the CBB will be closely liaising with licensees to ensure that no disruption occurs to their legitimate business activities.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1: Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.6 Licensees should note that the same legal entity cannot combine regulated banking services with other regulated services, such as regulated insurance services. However, different legal entities within the same group may of course each hold a different license (e.g. banking and insurance).

General Exclusions

LR-1.3.7

A person does not carry on an activity constituting a regulated banking service if the activity:

- (a) Is carried on in the course of a business which does not ordinarily constitute the carrying on of financial services;
- (b) May reasonably be regarded as a necessary part of any other services provided in the course of that business; and
- (c) Is not remunerated separately from the other services.

LR-1.3.8 For example, the taking of a deposit in connection with the rental of a property would not be considered a regulated banking service, since it satisfies the criteria in Rule LR-1.3.7.

LR-1.3.9

A person does not carry on an activity constituting a regulated banking service if the person is a body corporate and carries on that activity solely with or for other bodies corporate that are members of the same group.

LR-1.3.10

A person does not carry on an activity constituting a regulated banking service if such person carries on an activity with or for another person, and they are both members of the same family.

LR-1.3.11

A person does not carry on an activity constituting a regulated banking service if the sole or main purpose for which the person enters into the transaction is to limit any identifiable risks arising in the conduct of his business, providing the business conducted does not itself constitute a regulated activity.

LR-1.3.12 For example, an industrial company entering into an interest rate swap to switch floating-rate borrowings for fixed rate borrowings, in order to manage interest rate risk, would not be considered to be dealing in financial instruments as principal, and would not therefore be required to be licensed as a conventional bank.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.13 A person does not carry on an activity constituting a regulated banking service if that person enters into that transaction solely as a nominee for another person, and acts under instruction from that other person.

LR-1.3.14 A person does not carry on an activity constituting a regulated banking service if that person is a government body charged with the management of financial instruments on behalf of a government or public body.

LR-1.3.15 A person does not carry on an activity constituting a regulated banking service if that person is an exempt person, as specified by Royal decree.

Deposit-taking

LR-1.3.16 Deposit-taking is defined as receiving a sum of money paid on terms under which it will be repaid in full, with or without interest or a premium, and either on demand or in circumstances agreed by the parties involved. It excludes sums referable to the giving of security or as a fee paid in advance for goods or services. It also excludes money received by a person in consideration for debt instruments issued by the same person, or money received by a person entering into a loan or other financing agreement.

LR-1.3.17 The above definition, therefore, includes savings, current, notice, fixed and time deposits.

Providing Credit

LR-1.3.18 Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit; and providing credit by way of finance leases, factoring, forfeiting, and reverse repo transactions. It also includes the issuance or endorsement of letters of credit; the issuance of letters of guarantee and other contingent credit activities (such as the underwriting of loans); the purchase on the secondary market of loans and other contracts of credit (that do not otherwise fall under the definition of financial instruments); and the provision of ancillary credit-related activities, such as advising on or arranging loans. It excludes money advanced to a person in consideration for debt instruments issued by the same person.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

Accepting Shari'a Money Placements/Deposits

LR-1.3.19 Accepting Shari'a money placements is defined as the acceptance of sums of money for safe-keeping ('al-wadia', 'q'ard') in a Shar'ia compliant framework, under which it will be repaid, either on demand or in circumstances agreed by the parties involved, and which is not referable to the giving of security.

Offering Shari'a Financing Contracts

LR-1.3.20 Offering Shari'a financing contracts is defined as entering into, or making arrangement for another person to enter into, a contract to provide finance in accordance with Shari'a principles, such as murabaha, bay muajjal, bay salam, ijara wa iktina and istisna'a contracts.

Managing Shari'a Profit Sharing Investment Accounts

LR-1.3.21 Managing a Shari'a profit sharing investment account is defined as managing an account, portfolio or fund, whereby a sum of money is placed with the service provider on terms that a return will be made according to an agreed Shari'a compliant profit-sharing arrangement, based either on a mudaraba or musharaka partnership.

Dealing in Financial Instruments as Principal

LR-1.3.22 Dealing in financial instruments as principal means buying, selling, subscribing for or underwriting any financial instrument on one's account.

LR-1.3.23 Rule LR-1.3.22 includes the underwriting of equity and other financial instruments. The underwriting of loans comes under the activity of providing credit (see Rule LR-1.3.18). It also includes the temporary sale of a financial instrument through a repo transaction.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.24 A person does not carry on an activity specified in Rule LR-1.3.22 if the activity relates to the person issuing his own shares/debentures, warrants or bonds.

Dealing in Financial Instruments as Agent

LR-1.3.25 Dealing in financial instruments as agent means buying, selling, subscribing for or underwriting financial instruments on behalf of a client.

LR-1.3.26 A licensee that carries on an activity of the kind specified by Rule LR-1.3.25 does not determine the terms of the transaction and does not use its own financial resources for the purpose of funding the transaction. Such a licensee may however receive or hold assets in connection with the transaction, in its capacity as agent of its client.

Managing Financial Instruments

LR-1.3.27 Managing financial instruments means managing on a discretionary basis financial instruments on behalf of another person.

LR-1.3.28 The activities included under the definition of Rule LR-1.3.27 include activities such as asset management.

Safeguarding Financial Instruments (i.e. Custodian)

LR-1.3.29 Safeguarding financial instruments means the safeguarding of financial instruments for the account of clients.

LR-1.3.30 A person does not carry on an activity specified in Rule LR-1.3.29 if the person receives documents relating to a financial instrument for the purpose of onward transmission to, from, or at the direction of the person to whom the financial instrument belongs; or else is simply providing a physical safekeeping service such as a deed box.

LR-1.3.31 A person does not carry on an activity specified in Rule LR-1.3.29 if a third person, namely a qualifying custodian, accepts responsibility with regard to the financial instrument.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.32

A “qualifying custodian” means a person who is:

- (a) A licensee who has permission to carry on an activity of the kind specified in Rule LR-1.3.29; or
- (b) An exempt person in relation to activities of that kind.

LR-1.3.33

A person does not carry on an activity specified in Rule LR-1.3.29 if they are managing a central depository, which is part of an exchange recognised by the CBB.

LR-1.3.34

The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity of the kind specified under Rule LR-1.3.29:

- (a) Providing information as to the number of units or the value of any assets safeguarded; and
- (b) Converting currency.

LR-1.3.35

A person undertaking an activity of the kind specified under Rule LR-1.3.29 may also be engaged in the administration of the financial instruments, including related services such as cash/ collateral management.

Operating a Collective Investment Undertaking

LR-1.3.36

Operating a collective investment undertaking means operating, establishing or winding up a collective investment undertaking.

LR-1.3.37

For the purposes of LR-1.3.36, a collective investment undertaking means any arrangements, authorised by or registered with the CBB, with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements to participate in or receive profits or income arising from the acquisition, holding or disposal of the property or sums paid out of such profits or income.

LR-1.3.38

A person does not carry on an activity specified in Rule LR-1.3.36 if the activity relates to the person establishing or winding up a collective investment undertaking, and that activity may be reasonably regarded as necessary in the course of providing legal services or providing accounting services.

LR-1.3.39

Collective investment undertakings of the kind specified in Rule LR-1.3.36 may be open-ended (i.e. with shares continuously issued and redeemed to meet investor demand) or close-ended (where there is a single issue of shares and investors can only realise their investments on the winding-up of the fund).



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

Arranging Deals in Financial Instruments

LR-1.3.40

Arranging deals in financial instruments means making arrangements with a view to another person, whether as principal or agent, buying, selling, or subscribing for, or underwriting deals in, financial instruments.

LR-1.3.41

A person does not carry on an activity specified in Rule LR-1.3.40 if the arrangement does not bring about the transaction to which the arrangement relates.

LR-1.3.42

A person does not carry on an activity specified in Rule LR-1.3.40 if a person's activities are limited solely to introducing clients to licensees.

LR-1.3.43

The exclusion in Rule LR-1.3.42 does not apply if the agent receives from any person, other than the client, any pecuniary reward or other advantage, which he does not account to the client, arising out of his entering into the transaction. Thus, if A receives a commission from B for arranging credit or deals in investment for C, the exclusion in Rule LR-1.3.42 does not apply.

LR-1.3.44

A person does not carry on an activity specified in Rule LR-1.3.40 merely by providing the means of communication between two parties to a transaction.

LR-1.3.45

A person does not carry on an activity specified in Rule LR-1.3.40 if they operate an exchange, duly recognised and authorised by the CBB.

LR-1.3.46

Negotiating terms for an investment on behalf of a client is an example of an activity which maybe regarded as an activity of the kind specified in Rule LR-1.3.40.

LR-1.3.47

The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity of the kind specified in Rule LR-1.3.40:

- (a) Appointing professional advisers;
- (b) Preparing a prospectus/business plan;
- (c) Identifying potential sources of funding;
- (d) Assisting investors/subscribers/borrowers to complete and submit application forms; or
- (e) Receiving application forms for processing/checking and/or onward transmission.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

Advising on Deals in Financial Instruments

LR-1.3.48 Advising on financial instruments means giving advice to an investor or potential investor (or a person in his capacity as an agent for an investor or potential investor) on the merits of buying, selling, subscribing for or underwriting a particular financial instrument or exercising any right conferred by such a financial instrument.

LR-1.3.49 The following are examples of activities, which may be regarded as an activity as defined by Rule LR-1.3.48:

- (a) A person may offer to tell a client when shares reach a certain value on the basis that when the price reaches that value it would be a good time to buy or sell them;
- (b) Recommendation on the size or timing of transactions; and
- (c) Advice on the suitability of the financial instrument, or on the characteristics or performance of the financial instrument concerned.

LR-1.3.50 A person does not carry on an activity specified in Rule LR-1.3.48 by giving advice in any newspaper, journal, magazine, broadcast services or similar service in any medium if the principal purpose of the publication or service, taken as a whole, is neither that of:

- (a) Giving advice of the kind mentioned in Rule LR-1.3.48; nor
- (b) Leading or enabling persons to buy, sell, subscribe for or underwrite a financial instrument.

LR-1.3.51 The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity as defined by Rule LR-1.3.48:

- (a) Explaining the structure, or the terms and conditions of a financial instrument;
- (b) Valuing financial instruments for which there is no ready market;
- (c) Circulating company news or announcements;
- (d) Comparing the benefits and risks of one financial instrument to another; and
- (e) Advising on the likely meaning of uncertain provisions in an agreement relating to, or the terms of, a financial instrument or on the effect of contractual terms and their commercial consequences or on terms that are commonly accepted in the market.

Providing Money Exchange/Remittance Services

LR-1.3.52 Means providing exchange facilities between currencies, and the provision of wire transfer or other remittance services.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.3 Definition of Regulated Banking Services (continued)

Issuing/Administering Means of Payment

LR-1.3.53

Means the selling or issuing of payment instruments, or the selling or issuing of stored value (e.g. credit cards, travellers' cheques, electronic purses).



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.4 Shari'a Compliant Transactions

General Requirements for all Conventional Banks

LR-1.4.1 Conventional bank licensees may not hold themselves out as an Islamic bank. Conventional bank licensees are allowed to enter into activities (c) to (e) listed in Rule LR-1.3.1 under the conditions outlined in the remainder of this section, subject to the thresholds and conditions outlined in Section LR-1.2 (concerning facilities offered to Bahrain residents and facilities in Bahrain Dinar in particular).

LR-1.4.2 Shari'a compliant financing facilities provided by conventional bank licensees are treated as normal risk-weighted assets in the PIR and are not subject to the risk-weighting treatment under Volume 2.

LR-1.4.3 When offering any of the Shari'a compliant activities (c) to (e) listed in Rule LR-1.3.1, conventional bank licensees must have staff trained in Shari'a compliant banking business. The bank must also disclose in the notes to its Annual Report/Financial Statement all quantitative and qualitative disclosures on its Shari'a compliant business as required by AAOIFI accounting and auditing standards.

LR-1.4.4 Conventional bank licensees may freely invest in Shari'a compliant financial instruments for their own account (such as Sukuk or collective investment schemes).

Additional requirements for conventional retail banks

LR-1.4.5 Conventional retail banks licensees may provide Shari'a compliant activities (c) to (e) listed in Rule LR-1.3.1 in any amount and in any currency to Bahrain-resident individuals subject to the following conditions:

- (a) Shari'a compliant financing and funding to be undertaken through a special counter or branch as deemed necessary by the bank;
- (b) The bank must maintain separate books for Shari'a compliant banking activities to ensure no co-mingling of conventional and Islamic funds;
- (c) The bank must have a dedicated treasurer or senior trader for Shari'a compliant business and must also have a Shari'a compliance reviewer; and
- (d) The bank must establish a Shari'a Supervisory Board with a minimum of three board members. The board may have global authority for all Shari'a compliant business or may have authority purely for Islamic business booked in Bahrain.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1:	Requirement to Hold a License

LR-1.4 Shari'a Compliant Transactions (continued)

Additional Requirements for the Financing of Land or Property in Bahrain by way of Shari'a Compliant Financing Contracts

LR-1.4.6

Retail bank branches of foreign banks may provide Shari'a compliant financing (activity (e) listed in Rule LR-1.3.1) in any amount and in any currency to customers for the purpose of purchasing land or properties in Bahrain subject to the conditions below:

- (a) The branch must secure the CBB's prior written approval for offering such financing;
- (b) The purpose of ownership of the concerned land or property by the bank must be for the purpose of the subsequent resale to the customer under a Shari'a compliant financing contract;
- (c) The period of legal ownership of the concerned land or property by the branch must be limited only to the financing phase of the Shari'a compliant financing contract; and
- (d) In the case of default by the customer and repossession by the branch, the land or property must be disposed of within one year of the date of the termination of the Shari'a compliant financing contract. Branches may approach the CBB to extend this period for a maximum of one additional year.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

LR-1A.1 CBB Notification and Approval

General Requirement

LR-1A.1.1 All persons wishing to undertake a controlled function in a conventional bank licensee must be approved by the CBB prior to their appointment (subject to the variations contained in Rule LR-1A.1.3).

LR-1A.1.2 Controlled functions are those of:

- (a) Director;
- (b) Chief Executive or General Manager;
- (c) Senior Manager;
- (d) Compliance officer;
- (e) Money Laundering Reporting Officer;
- (f) Deputy Money Laundering Reporting Officer; and
- (g) Financial Instruments Trader.

LR-1A.1.3 Prior approval is required for controlled functions (a), (b), (c), (d), (e) and (f). Controlled functions (d) and (e) may be combined, however (see also FC-4.1, regarding the MLRO function). Controlled function (g) does not require prior approval: instead, notification only is required, once the person concerned has accepted to undertake that function.

Basis for Approval

LR-1A.1.4 Approval under Rule LR-1A.1.1 is only granted by the CBB, if it is satisfied that the person is fit and proper to hold the particular position in the licensee concerned. 'Fit and proper' is determined by the CBB on a case-by-case basis. The definition of 'fit and proper' and associated guidance is provided in Sections LR-1A.2 and LR-1A.3 respectively.

Definitions

LR-1A.1.5 Director is any person who occupies the position of a Director, as defined in Article 173 of the Commercial Companies Law (Legislative Decree No. 21 of 2001).

LR-1A.1.6 The fact that a person may have 'Director' in their job title does not of itself make them a Director within the meaning of the definition noted in Rule LR-1A.1.5. For example, a 'Director of Marketing', is not necessarily a member of the Board of Directors and therefore may not fall under the definition of Rule LR-1A.1.5.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

LR-1A.1 CBB Notification and Approval (continued)

LR-1A.1.7 The Chief Executive or General Manager means a person who is responsible for the conduct of the licensee (regardless of actual title). The Chief Executive or General Manager must be resident in Bahrain. This person is responsible, alone or jointly, for the conduct of the whole of the firm, or, in the case of an overseas conventional bank licensee, for all of the activities of the branch (in which case, he may hold the title of 'Branch Manager').

LR-1A.1.8 Senior Manager means a person who, under the immediate authority of a Director or the Chief Executive/General Manager, exercises major managerial responsibilities, is responsible for a significant business or operating unit, or has major managerial responsibility for maintaining accounts or other records of the licensee.

LR-1A.1.9 Whether a person is a Senior Manager will depend on the facts in each case and is not determined by the presence or absence of the word in their job title. Examples of Senior Managers might include, depending on the scale, nature and complexity of the business, a deputy Chief Executive; and heads of departments such as Risk Management, or Internal Audit; or the Chief Financial Officer.

Compliance Officer

LR-1A.1.10 All banks must appoint a senior member of staff with responsibility for the management of compliance risk as their Compliance Officer/Manager.

LR-1A.1.11 The compliance function must be independent (i.e. it must not be placed in a position where its other duties or responsibilities may cause a conflict of interest with its compliance risk management responsibilities). Therefore the compliance function must be separate from the internal audit function. The compliance officer or manager may however, perform other limited related compliance roles (e.g. the MLRO or legal advisor), subject to the CBB's prior approval.

LR-1A.1.12 The compliance officer/manager must be appropriately qualified and experienced and the compliance function must have adequate resources to carry out its functions effectively.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

LR-1A.1 CBB Notification and Approval (continued)

LR-1A.1.13 The appointment of a compliance manager/officer requires the CBB's prior approval and the submission of the appointee's Personal Questionnaire (Form 3: Application for Approved Person status) and Curriculum Vitae to the CBB. The bank must also outline how the compliance function fits into the bank's senior management reporting structure, and must give details of relevant reporting lines within the bank.

LR-1A.1.14 In the case of locally incorporated banks, the compliance officer/manager must have access to the Board of Directors in addition to the senior management.

LR-1A.1.15 Financial Instruments Trader means a person who is engaged in buying or selling financial instruments.

LR-1A.1.16 Where a firm is in doubt as to whether a function should be considered a controlled function it must discuss the case with the CBB.

Notification Requirements and Process

LR-1A.1.17 Conventional bank licensees must obtain CBB approval before a person is formally appointed to a controlled function; the request for CBB approval must be made by submitting to CBB a duly completed Form 3 (Application for Approved Person status). In the case of a financial instruments trader, notification only is required (see Rule LR-1A.1.3): this notification must also be made by submitting a Form 3.

LR-1A.1.18 In the case of license applications, the Form 3 must be marked for the attention of the Director, Licensing and Policy Directorate. When made by a conventional bank licensee, the Form 3 must be marked for the attention of either the Director, Retail Banks Supervision or the Director, Wholesale Banks Supervision, as appropriate.

LR-1A.1.19 Licensees should give the CBB a reasonable amount of notice in order for an application for approval to be reviewed. The CBB aims to respond within 2 weeks of receipt of an application, although in some cases, where referral to an overseas supervisor is required, the response time is likely to be longer.

LR-1A.1.20 Licensees seeking to appoint Board Directors must seek CBB approval for all the candidates to be put forward for election/approval at a shareholder meeting, in advance of the agenda being issued to shareholders. CBB approval of the candidates does not in any way limit shareholders' rights to refuse those put forward for election/approval.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-1A:	Approved Persons

LR-1A.1 CBB Notification and Approval (continued)

LR-1A.1.21 All refusals by the CBB to grant a person approved person status have to be reviewed and approved by an Executive Director of the CBB. A notice of intent is issued to the licensee concerned, setting out the basis for the decision. The licensee has 30 calendar days from the date of the notice in which to appeal the decision. The CBB then has 30 calendar days from the date of the representation in which to make a final determination. See also Chapter EN-5.

LR-1A.1.22 Conventional bank licensees must immediately notify the CBB when an approved person ceases to hold the controlled function for which they have been approved, for whatever reason (see also Rule LR-1A.1.23).

LR-1A.1.23 Banks must notify the CBB in writing of any proposed changes to senior positions or ownership changes mentioned in this Section (whether in terms of structure or identity of personnel) prior to the change. The communication should include the reason for the departure of the personnel and the Curriculum Vitae of any new persons taking up the relevant positions in the bank.

LR-1A.1.24 Thus, licensees are required to notify the CBB should an approved person transfer to another function within the licensee, or to another group entity; or else resign, be suspended or dismissed. The CBB may require further clarification as to the reasons for the person's transfer or departure. The CBB will automatically withdraw the individual's approved person status: should the person wish to undertake another controlled function, whether within the same licensee or in another licensee, then a new application should be resubmitted.

LR-1A.1.25 If a controlled function falls vacant, the conventional bank licensee must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the conventional bank licensee must make immediate interim arrangements to ensure continuity of the duties and responsibilities of the controlled function affected. These interim arrangements must be approved by the CBB.

LR-1A-1.26 Conventional bank licensees must immediately notify the CBB should they become aware of information that could reasonably be viewed as calling into question an approved person's compliance with CBB's 'fit and proper' requirement (see LR-1A.2).



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

LR-1A.2 'Fit and proper' Requirement

LR-1A.2.1 Licensees seeking an approved person authorisation for an individual, must satisfy the CBB that the individual concerned is 'fit and proper' to undertake the controlled function in question.

LR-1A.2.2 To be considered 'fit and proper', those nominated must demonstrate:

- (a) Personal integrity, honesty and good reputation;
- (b) Professional competence, experience and expertise, sufficient for the controlled function for which authorisation is being applied for, and given the scale, complexity and nature of the conventional bank licensee concerned; and
- (c) Financial soundness.

LR-1A.2.3 In assessing the conditions prescribed in Rule LR-1A.2.2, the CBB will take into account the criteria contained in Section LR-1A.3. The CBB reviews each application on a case-by-case basis, taking into account all relevant circumstances. A person may be considered 'fit and proper' to undertake one type of controlled function but not another, depending on the function's job size and required levels of experience and expertise. Similarly, a person approved to undertake a controlled function in one conventional bank licensee may not be considered to have sufficient expertise and experience to undertake nominally the same controlled function but in a much bigger licensee.

LR-1A.2.4 Approved persons undertaking a controlled function must act prudently, and with honesty, integrity, care, skill and due diligence in the performance of their duties. They must avoid conflicts of interest arising whilst undertaking a controlled function (refer to Chapter HC-2).

LR-1A.2.5 In determining whether a conflict of interest may arise, factors that may be considered include whether:

- (a) A person has breached any fiduciary obligations to the company or terms of employment;
- (b) A person has undertaken actions that would be difficult to defend, when looked at objectively, as being in the interest of the licensee; and
- (c) A person has failed to declare a personal interest that has a material impact in terms of the person's relationship with the licensee.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

LR-1A.3 Interpretative Guidance on ‘Fit and Proper’ Requirement

LR-1A.3.1 In assessing a person’s fitness and propriety, the CBB will consider previous professional and personal conduct (in Bahrain or elsewhere) including, but not limited to, the following:

- (a) The propriety of a person’s conduct, whether or not such conduct resulted in a criminal offence being committed, 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 have been declared bankrupt whilst the person was connected with that partnership;
- (j) The extent to which the person has been truthful and open with supervisors;
- (k) The extent to which the person has appropriate professional and other qualifications for the controlled function in question;
- (l) The extent to which the person has sufficient experience, or is otherwise able to perform the functions of the controlled function in question;
- (m) 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.

LR-1A.3.2 With respect to LR-1A.3.1(b), (c), (d) and (e), the CBB will take into account the length of time since any such event occurred, as well as the seriousness of the matter in question.

LR-1A.3.3 Further guidance on the process for assessing a person’s ‘fit and proper’ status is given in Module EN (Enforcement): see Chapter EN-5.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.1 Condition 1: Legal Status

LR-2.1.1

The legal status of a conventional bank licensee must be:

- (i) A Bahraini joint stock company (BSC); or
- (ii) A branch resident in Bahrain of a conventional bank incorporated under the laws of its territory of incorporation and authorised as a bank in that territory.

LR-2.1.2

Where the conventional bank licensee is a branch of an overseas bank, in deciding whether to grant a license, the CBB will pay close regard to its activities elsewhere and how these activities are regulated. If the conventional bank licensee is not regulated elsewhere or in a jurisdiction not substantially compliant with Basel Core Principles or FATF standards, then an application for licensing can only be considered after exhaustive enquiries into the bank's shareholders, management structure and financial position.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.2 Condition 2: Mind and Management

LR-2.2.1

Conventional bank licensees with their Registered Office in the Kingdom of Bahrain must maintain their Head Office in the Kingdom. Overseas conventional bank licensees must maintain a local management presence and premises in the Kingdom appropriate to the nature and scale of their activities.

LR-2.2.2

In assessing the location of a conventional bank licensee's Head Office, the CBB will take into account the residency of its Directors and senior management. The CBB requires the majority of key decision makers in executive management – including the Chief Executive Officer - to be resident in Bahrain. In the case of overseas licensees, the CBB requires the branch or subsidiary of a foreign owned company to have a substantive presence, demonstrated by a level of staff and other resources sufficient to ensure adequate local scrutiny and control over business booked in the Bahrain branch or subsidiary.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.3 Condition 3: Controllers

LR-2.3.1

Conventional bank licensees must satisfy the CBB that their controllers are suitable and pose no undue risks to the licensee. Conventional banks must also satisfy the CBB that their group structures do not prevent the effective supervision of the conventional bank licensee by the CBB and otherwise pose no undue risks to the licensee.

LR-2.3.2 Chapter GR-5 contains the CBB's requirements and definitions regarding controllers.

LR-2.3.3 In summary, controllers are persons who directly or indirectly are significant shareholders in a conventional bank licensee, or who are otherwise able to exert significant influence on the conventional bank licensee. The CBB seeks to ensure that controllers pose no significant risks to the licensee. In general terms, controllers are assessed in terms of their financial standing, their judicial and regulatory record, and standards of business and (where relevant) personal probity.

LR-2.3.4 As regards group structures, the CBB seeks to ensure that these do not prevent adequate consolidated supervision being applied to financial entities within the group, and that other group entities do not pose any material financial, reputational or other risks to the licensee.

LR-2.3.5 In all cases, when judging applications from existing groups, the CBB will have regard to the reputation and financial standing of the group as a whole. Where relevant, the CBB will also take into account the extent and quality of supervision applied to overseas members of the group and take into account any information provided by other supervisors in relation to any member of the group.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.4 Condition 4: Board and Employees

LR-2.4.1

Those nominated to carry out controlled functions must satisfy the CBB's approved persons requirements. This Rule is supported by Article 65 of the CBB Law.

LR-2.4.2

The definition of controlled functions is contained in Paragraph LR-1A.1.2, whilst Section LR-1A.2 sets out CBB's approved persons requirements.

LR-2.4.3

The conventional bank licensee's staff, taken together, must collectively provide a sufficient range of skills and experience to manage the affairs of the licensee in a sound and prudent manner. Conventional bank licensees must ensure their employees meet any training and competency requirements specified by the CBB.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.5 Condition 5: Financial Resources

Capital Adequacy

LR-2.5.1

Conventional bank licensees must maintain a level of financial resources, as agreed with the CBB, adequate for the level of business proposed. The level of financial resources held must at all times meet the minimum risk-based requirements contained in Module CA (Capital Adequacy), as specified for the Category of banking license held.

LR-2.5.2

Conventional bank licensees must maintain a minimum level of paid-up capital of BD 20,000,000 (or its equivalent in foreign currency, where legally permitted and agreed with the CBB).

LR-2.5.3

Persons seeking a license as a conventional bank licensee must submit a 3-year business plan, with financial projections. Their proposed level of paid-up capital must be sufficient to cover expected regulatory capital requirements over that period, based on projected activities.

LR-2.5.4

In practice, applicants seeking a conventional bank license are likely to be required to hold significantly more capital than the minimum paid-up capital specified in Rule LR-2.5.2.

LR-2.5.5

Overseas banking applicants are required to provide written confirmation from their head office that the head office will provide financial support to the branch sufficient to enable it to meet its obligations as and when they fall due. Overseas banking applicants must also demonstrate that the bank as a whole is adequately resourced for the amount of risks underwritten, and that it and its group meet capital adequacy standards applied by its home supervisor.

LR-2.5.6

For Bahraini conventional bank licensees, deposit liabilities must not exceed 20 times their capital and reserves. For overseas conventional wholesale bank licensees, endowment capital may be required.

LR-2.5.7

Factors taken into account in setting endowment capital for branches includes the financial strength of the parent company, the quality of its risk management, and the nature and scale of the Bahrain operations of the branch.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.5 Condition 5: Financial Resources (continued)

Liquidity

LR-2.5.8

Conventional bank licensees must maintain sufficient liquid assets to meet their obligations as they fall due in the normal course of their business. Conventional bank licensees must agree a liquidity management policy with the CBB.

LR-2.5.9

The CBB would normally expect the mark-to-market value of assets that could be readily realised at short-notice to exceed 25% of deposit liabilities at all times. Liquidity arrangements may vary, however, particularly for overseas conventional banks, as agreed with the CBB and documented in the liquidity management policy.

Reserve Requirements

LR-2.5.10

Conventional bank licensees must maintain a minimum daily cash reserve balance with the CBB set as a ratio of their total non-bank Bahrain Dinar deposits and Bahrain Dinar denominated Certificates of Deposit. The current required ratio is 5% and may be varied by the CBB at its discretion.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.6 Condition 6: Systems and Controls

LR-2.6.1

Conventional bank licensees must maintain systems and controls that are, in the opinion of the CBB, adequate for the scale and complexity of their activities. These systems and controls must meet the minimum requirements contained in Modules HC, CM and OM.

LR-2.6.2

Conventional bank licensees must maintain systems and controls that are, in the opinion of the CBB, adequate to address the risks of financial crime occurring in the licensee. These systems and controls must meet the minimum requirements contained in Module FC, as specified for the Category of license held.

LR-2.6.3

Applicants will be required to demonstrate in their business plan (together with any supporting documentation) what risks their business would be subject to and how they would manage those risks. Applicants may be asked to provide an independent assessment of the appropriateness of their systems and controls to the CBB, as part of the license approval process.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.7 Condition 7: External Auditor

LR-2.7.1

Article 61 of the CBB Law requires that conventional bank licensees must appoint an external auditor, subject to the CBB's prior approval. The minimum requirements regarding external auditors contained in Module AU (Auditors and Accounting Standards) must be met.

LR-2.7.2

Applicants must submit details of their proposed external auditor to the CBB as part of their license application.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.8 Condition 8: Other Requirements

Books and Records

LR-2.8.1

Article 59 of the CBB Law requires that Conventional bank licensees must maintain comprehensive books of accounts and other records, and satisfy the minimum record-keeping requirements contained in Article 60 of the pre-mentioned Law and Module OM. Books of accounts must comply with **IAS**.

Provision of Information

LR-2.8.2

Article 58, 111, 114 and 163 of the CBB Law require that Conventional bank licensees and their staff must act in an open and cooperative manner with the CBB. Conventional bank licensees must meet the regulatory reporting and public disclosure requirements contained in Modules BR and PD respectively. **As per Article 62 of the CBB Law, audited financial statements must be submitted to the CBB within 3 months of the licensee's financial year-end.**

General Conduct

LR-2.8.3

Conventional bank licensees must conduct their activities in a professional and orderly manner, in keeping with good market practice. Conventional bank licensees must comply with the general standards of business conduct contained in Module PB, as well as the standards relating to treatment of customers contained in Modules BC and CM.

LR-2.8.4

[This paragraph has been moved to chapter LR-4 in October 2007]

LR-2.8.5

[This paragraph has been deleted in October 2007]

Additional Conditions

LR-2.8.6

Conventional bank licensees must comply with any other specific requirements or restrictions imposed by the CBB on the scope of their license.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

LR-2.8 Condition 8: Other Requirements (continued)

LR-2.8.7 Bank licensees are subject to the provisions of the CBB Law. These include the right of the CBB to impose such terms and conditions, as it may deem necessary when issuing a license, as specified in Article 45 of the CBB Law. Thus, when granting a license, the CBB specifies the regulated banking services that the licensee may undertake. Licensees must respect the scope of their license. LR-3.2 sets out the process for varying the scope of an authorisation, should a licensee wish to undertake new activities.

LR-2.8.8 In addition, the CBB may impose additional restrictions or requirements, beyond those already specified in Volume 1, to address specific risks. For instance, a license may be granted subject to strict limitations on intra-group transactions.

LR-2.8.9 Conventional retail bank licensees are subject to the deposit protection scheme of eligible deposits held with the Bahrain offices of the licensee (see Chapter CP-2). This Rule is supported by Article 177 of the CBB Law.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-3:	Information Requirements and Processes

LR-3.1 Licensing

LR-3.1.1

Applicants for a license must submit a duly completed Form 1 (Application for a License), under cover of a letter signed by an authorised signatory of the applicant marked for the attention of the Director, Licensing and Policy Directorate. The application letter must be accompanied by the documents listed in Paragraph LR-3.1.5, unless otherwise directed by the CBB.

LR-3.1.2

[This paragraph was deleted in October 2007]

LR-3.1.3

References to applicant mean the proposed licensee seeking authorisation. An applicant may appoint a representative – such as a law firm or professional consultancy – to prepare and submit the application. However, the applicant retains full responsibility for the accuracy and completeness of the application, and is required to certify the application form accordingly. The CBB also expects to be able to liaise directly with the applicant during the authorisation process, when seeking clarification of any issues.

LR-3.1.4

[This paragraph was deleted in October 2007]

LR-3.1.5

Unless otherwise directed by the CBB, the following documents must be provided together with the covering letter referred in LR-3.1.1 above in support of a license application:

- (a) A duly completed Form 2 (Application for Authorisation of Controller) for each controller of the proposed licensee;
- (b) A duly completed Form 3 (Application for Approved Person status), for each proposed Director of the proposed licensee;
- (c) A comprehensive business plan for the application, addressing the matters described in LR-3.1.6;
- (d) For overseas banks, a copy of the bank's current commercial registration or equivalent documentation;
- (e) Where the applicant is an existing institution, a copy of the applicant's commercial registration;
- (f) Any relevant Private Placement Memoranda or public offering documents (if funds are to be raised by external shareholders);
- (g) Where the applicant is a corporate body, a certified copy of a Board resolution of the applicant along with minutes of the concerned meeting, confirming the board's decision to seek a CBB conventional bank license;
- (h) In the case of applicants that are part of a regulated group, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the group is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy and solvency requirements;



MODULE	LR: Licensing Requirements
CHAPTER	LR-3: Information Requirements and Processes

LR-3.1 Licensing (continued)

- (i) In the case of overseas branch applicants, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the applicant is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy requirements;
- (j) In the case of branch applicants, copies of the audited financial statements of the applicant (head office) for the three years immediately prior to the date of application; and
- (k) In the case of applicants for a licence for a locally incorporated bank, copies of the audited financial statements of the applicant's major shareholder and/or group (as directed by the CBB), for the three years immediately prior to the date of application;
- (l) A duly completed Form 3 (Application for Approved Person status), for each individual, (other than for Directors covered in item (b) above) applying to undertake controlled functions in the applicant; and
- (m) A draft copy of the applicant's (and parent's where applicable) memorandum and articles of association, addressing the matters described in LR-3.1.7.

LR-3.1.5A The CBB, in its complete discretion may ask for a guarantee from the applicant's controlling or major shareholders on a case by case basis as it deems appropriate/necessary as part of the required documents to be submitted as mentioned in Paragraph LR-3.1.5 above.

LR-3.1.6 The business plan submitted in support of an application should explain:

- (a) An outline of the history of the applicant and its shareholders;
- (b) The reasons for applying for a license, including the applicant's strategy and market objectives;
- (c) The proposed type of activities to be carried on by the applicant in/from the Kingdom of Bahrain;
- (d) The proposed Board and senior management of the applicant and the proposed organisational structure of the applicant;
- (e) An assessment of the risks that may be faced by the applicant, together with the proposed systems and controls framework to be put in place for addressing those risks and to be used for the main business functions; and
- (f) An opening balance sheet for the applicant, together with a three-year financial projection, with all assumptions clearly outlined, demonstrating that the applicant will be able to meet applicable capital adequacy and liquidity requirements.



MODULE	LR: Licensing Requirements
CHAPTER	LR-3: Information Requirements and Processes

LR-3.1 Licensing (continued)

LR-3.1.7 The applicant's (and where applicable, its parent's) memorandum and articles of association must explicitly provide for it to undertake the activities proposed in the licensed application, and must preclude the applicant from undertaking other commercial activities, unless these arise out of its banking activities or are incidental to those.

LR-3.1.8 In the case of a new bank's capital being financed by a private placement, the Private Placement Memorandum must also be submitted to the CBB for its approval.

LR-3.1.9 The purpose of Rule LR-3.1.8 is to allow the CBB to verify that the contents of the Private Placement Memorandum are consistent with other information supplied to the CBB, notably in the business plan, and otherwise meets any applicable regulatory requirements with respect to PPM documents. The CBB's review of the PPM does not in any way constitute an approval or endorsement as to any claims it may contain as to the future value of the proposed bank.

LR-3.1.10 [This paragraph was deleted in October 2007]

LR-3.1.11 All documentation provided to the CBB as part of an application for a license must be in either Arabic or English language. Any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof.

LR-3.1.12 Any material changes or proposed changes to the information provided to the CBB in support of an authorisation application that occurs prior to authorisation must be reported to the CBB.

LR-3.1.12A Before the final approval is granted to a licensee, confirmation from a retail bank addressed to the CBB that the licensee's capital (injected funds) – as specified in the business plan submitted under Rule LR-3.1.5 – has been paid in must be provided to the CBB.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-3:	Information Requirements and Processes

LR-3.1 Licensing (continued)

LR-3.1.13 Failure to inform the CBB of the changes specified in LR-3.1.12 is likely to be viewed as a failure to provide full and open disclosure of information, and thus a failure to meet licensing condition LR-2.8.2.

LR-3.1.14 As part of the application process, the CBB will provide a formal decision on a license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the CBB, as specified in Article 44 (e) of the CBB Law. The applicant must submit within 6 months of the application date, all remaining requirements or otherwise has to submit a new application to the CBB.. Applicants are encouraged to approach the CBB to discuss their application at an early stage, so that any specific questions can be dealt with prior to the finalisation of the application.

LR-3.1.15

Within 6 months of the license being issued, the new licensee must provide to the CBB:

- (a) **A detailed action plan for establishing the operations and supporting infrastructure of the bank, such as the completion of written policies and procedures, and recruitment of remaining employees (having regard to the time limit set by Article 48 (c) of the CBB Law);**
- (b) **The registered office address and details of premises to be used to carry out the business of the proposed licensee;**
- (c) **The address in the Kingdom of Bahrain where full business records will be kept;**
- (d) **The licensee's contact details including telephone and fax number, e-mail address and website;**
- (e) **A description of the business continuity plan;**
- (f) **A description of the IT system that will be used, including details of how IT systems and other records will be backed up;**
- (g) **A copy of the auditor's acceptance to act as auditor for the applicant;**
- (h) **A copy of the applicant's notarised memorandum and articles of association, addressing the matters described in Paragraph LR-3.1.7;**
- (i) **A copy of the Ministry of Industry & Commerce commercial registration certificate in Arabic and in English;**
- (j) **A copy of the bank's business card and any written communication (including stationery, website, e-mail, business documentation, etc.) including a statement that the bank is licensed by the CBB, specifying whether it is licensed either as conventional wholesale or conventional retail bank; and**
- (k) **Other information as may be specified by the CBB.**



MODULE	LR:	Licensing Requirements
CHAPTER	LR-3:	Information Requirements and Processes

LR-3.1 Licensing (continued)

LR-3.1.15A With respect to the requirement under Subparagraph LR-3.1.15(j), conventional bank licensees must ensure that they comply with this Rule by 31st March 2011.

LR-3.1.16 Applicants issued new licenses by the CBB must start operations within 6 months of the license being issued, as per Article 48 (c) of the CBB Law. Failure to comply with this rule lead to enforcement action being taken against the licensee concerned, as specified in Article 128 of the CBB Law. Conventional bank licensee must at all times keep an approved copy of the licence displayed in a visible place on the Licensee's premises in the Kingdom, as per Article 47 (b) of the CBB Law.

LR-3.1.17 Applicants who are refused a license have a right of appeal under the provisions contained in Article 46 of the CBB Law, which shall not be less than thirty days from the date of the decision. The Central Bank will decide on the appeal made by the applicant and notify him of its decision within thirty days from the date of submission of the appeal.

LR-3.1.18 Applicants may not publicise in any way the application for a licence for, or formation of, a bank before the formal decision referred to in Paragraph LR-3.1.14 is provided to the applicant or the concerned agent.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-3:	Information Requirements and Processes

LR-3.2 Variations to a License

LR-3.2.1

As per Article 48 of the CBB Law, Conventional bank licensees must seek prior CBB approval before undertaking new regulated banking services.

LR-3.2.2

Failure to secure CBB approval prior to undertaking a new regulated activity may lead to enforcement action being taken against the concerned person. This is supported by Article 40 of the CBB law.

LR-3.2.3

In addition to any other information requested by the CBB, and unless otherwise directed by the CBB, a conventional bank licensee requesting CBB approval to undertake a new regulated banking service must provide the following information:

- (a) A summary of the rationale for undertaking the proposed new activities;
- (b) A description of how the new business will be managed and controlled;
- (c) An analysis of the financial impact of the new activities; and
- (d) A summary of the due diligence undertaken by the Board and management of the conventional bank licensee on the proposed new activities.

LR-3.2.4

The CBB may amend or revoke a licence in any of the following cases:

- (a) If the licensee fails to satisfy any of the license conditions;
- (b) If the licensee violates the terms of this regulation or any of the Volume's directives;
- (c) If the licensee fails to start business within six months from the date of the licence;
- (d) If the licensee ceases to carry out the licensed activity in the Kingdom; and
- (e) The legitimate interests of the customers or creditors of a licensee required such amendment or cancellation.

LR-3.2.5

The CBB's procedures for amending or revoking a license is outlined in detail in the Enforcement Module (EN).



MODULE	LR:	Licensing Requirements
CHAPTER	LR-3:	Information Requirements and Processes

LR-3.3 Withdrawal of a License or Closure of a Branch

Voluntary Surrender of a License or Closure of a Branch

LR-3.3.1

In accordance with Article 50 of the CBB Law, all requests for the voluntary surrender of a license or closure of a branch are subject to the CBB's prior written approval, before ceasing such activities. Such requests must be made in writing to the Executive Director of Banking Supervision, setting out in full the reasons for the request and how the voluntary surrender of the license or branch closure is to be carried out.

LR-3.3.2

Conventional bank licensees must satisfy the CBB that their customers' interests are to be safeguarded during and after the proposed voluntary surrender or closure of the branch. The requirements contained in Chapter GR-7 regarding cessation of business must be satisfied.

LR-3.3.3

The CBB will only approve a voluntary surrender where it has no outstanding regulatory concerns and any relevant customers' interests would not be prejudiced. A voluntary surrender will not be accepted where it is aimed at pre-empting supervisory actions by the CBB. Also, a voluntary surrender will only take effect once the licensee, in the opinion of the CBB, has discharged all its regulatory responsibilities to customers.

Cancellation of a License by the CBB

LR-3.3.3A

As provided for under Article 48 (c) of the CBB Law, the CBB may itself move to cancel a license. The CBB generally views the cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. See also Chapter EN-9, regarding the cancellation or amendment of licenses, including the procedures used in such instances and the licensee's right to appeal the formal notice of cancellation issued by the CBB.

LR-3.3.4

Cancellation of a license requires the CBB to issue a formal notice of cancellation to the person concerned. The notice of cancellation describes the CBB's rationale for the proposed cancellation, as specified in Article 48 (d) of the CBB Law.

LR-3.3.5

[This Paragraph was deleted in October 2011.]

LR-3.3.6

Where the cancellation of a license has been confirmed by the CBB, the CBB will only effect the cancellation once a licensee has discharged all its regulatory responsibilities to customers. Until such time, the CBB will retain all its regulatory powers with regards to the licensee, and will direct the licensee such that no new regulated banking services may be undertaken whilst the licensee discharges its obligations to customers.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-4:	License Fees

LR-4.1 License Application Fees

LR-4.1.1

With immediate effect, applicants seeking a conventional bank license from the CBB must pay a non-refundable license application fee of BD 100 at the time of submitting their formal application to the CBB.

LR-4.1.2 There are no application fees for those seeking approved person status.



MODULE	LR: Licensing Requirements
CHAPTER	LR-4: License Fees

LR-4.2 Annual License Fees

LR-4.2.1 Conventional bank licensees must pay the relevant annual license fee to the CBB, in April each year, i.e. after the financial statements for the previous year have been finalised.

LR-4.2.2 Conventional retail bank licensees must pay 1% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD30,000 and a cap of BD240,000.

LR-4.2.3 Bahraini conventional wholesale bank licensees must pay 0.5% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD13,000 and a cap of BD100,000.

LR-4.2.4 Overseas conventional wholesale bank licensees must pay 0.25% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD13,000 and a cap of BD100,000.

LR-4.2.5 The fees due in April are those due for the same calendar year, but are normally calculated on the basis of the conventional bank's financials for the previous calendar year: i.e. the fee payable in April 2007 (for example), is that due for the calendar year 2007, and is calculated using the audited financial statements for 2006. Where a licensee does not operate its accounts on a calendar-year basis, then the most recent audited financial statements available are used instead.

LR-4.2.6 Relevant operating expenses are defined as the total operating expenses of the licensee concerned, as recorded in the most recent audited financial statements available, subject to the adjustments specified in Rule LR-4.2.7.

LR-4.2.7 The adjustments to be made to relevant operating expenses are the exclusion of the following items from total operating expenses:

- Training costs;
- Charitable donations;
- Previous year's CBB fees paid; and
- Non-executive Directors' remuneration.

LR-4.2.8 For the avoidance of doubt, operating expenses for the purposes of this Section, do not include items such as depreciation, provisions, interest expense, and dividends.

LR-4.2.9 The CBB would normally rely on the audited accounts of a licensee as representing a true and fair picture of its operating expenses. However, the CBB reserves the right to enquire about the accounting treatment of expenses, and/or policies on intra-group charging, if it believes that these are being used artificially to reduce a license fee.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-4:	License Fees

LR-4.2 Annual License Fees (continued)

LR-4.2.9A

Conventional bank licensees must pay a fixed annual fee of BD 1,000 for each locally incorporated SPV in Bahrain which is under the control of and/or providing an actual business function, service or activity (whether actively or passively) for the bank and/or others at the bank's direction or having been established under the bank's direction for that purpose.

LR-4.2.9B

Paragraph LR-4.2.9A does not apply to SPVs of Bahrain domiciled CIUs. In the case of Bahrain domiciled CIUs, banks should refer to the relevant Chapter in Module ARR of Volume 7, depending on the classification of the Bahrain domiciled CIU.

LR-4.2.10

Conventional Bank licensees must complete and submit Form ALF (Annual License Fee) to the CBB, no later than 30 April each year, together with the payment due under Rule LR-4.2.1.

LR-4.2.11

For new licensees, their first annual license fee is payable when their license is issued by the CBB. The amount payable is the floor amount specified for conventional bank licensees, reduced on a pro-rata basis such that they are charged only for the number of complete months left in the current calendar year.

LR-4.2.12

For example, if a conventional retail bank is issued a license on 6 June 2007, then it would be asked to pay an annual license fee that same month, covering the remaining period left for the calendar year 2007. The fee would be calculated as BD 30,000 (the minimum amount payable by a conventional retail bank licensee, multiplied by 6/12 (the number of complete months left in the year, i.e. July to December inclusive, divided by the total number of months in the year), giving a fee liability of BD 15,000. The following year, the licensee would submit a Form ALF by end-April 2008 as normal, and calculate its fee using its audited financial numbers for 2007 (or alternative arrangements as agreed with CBB, should its first set of accounts cover an 18-month period).

LR-4.2.13

Where a license is cancelled (whether at the initiative of the firm or the CBB), no refund is paid for any months remaining in the calendar year in question, should a fee have been paid for that year.