



EDFIS/C/020/2007

10 July 2007

The General Manager
All Investment firm licensees

Dear Sir,

CBB Rulebook, Volume 4 (Investment Business):
July 2007 Quarterly Update

After two quarter periods with no changes to Volume 4 of the CBB Rulebook, a number of necessary changes are now being issued. These changes will shortly be appearing in the website version of the Rulebook.¹

This letter summarises these changes. **Licensees are required to note any policy changes. In addition, recipients who wish to update their hard copy folders should access the CBB website and print off the relevant pages for insertion in their folders.**

July 2007 Changes

The changes introduced this quarter fall into three categories:

(i) CBB Law

First, Volume 4 has been comprehensively updated to reflect the enactment of the Central Bank of Bahrain and Financial Institutions Law 2006. This necessitated, for instance, replacing references to the Bahrain Monetary Agency and to the BMA Law 1973 (where appropriate); and updating all Modules to refer to the CBB's rulemaking powers. The opportunity was also taken to correct a few drafting errors that existed in the old text.

¹ Volume 4 can be accessed, as usual, from www.cbb.gov.bh : from the Home page, select 'Regulatory Functions' and then 'Laws & Regulations'. Alternatively, use the 'Quick Links' facility on the Home page to access the CBB Rulebook directly.

Taken together, these required a large number of minor changes; however, none of these altered the substance of the CBB's rules. In addition to these presentational points, the CBB Law has also required some material changes to the text of Volume 4.

Specifically, the User's Guide (Module UG) has been updated to provide an explanation of the CBB's rulemaking instruments under the new Law.

The Authorisation Module (Module AU) has been changed to reflect the licensing process specified in the CBB Law, as well as the new license fee system introduced in April.

The General Requirements Module (Module GR) has been changed to reflect new procedures for the transfer and cessation of business, as well as the approval of changes in controllers, again reflecting processes specified in the CBB Law.

And finally, the Enforcement Module (Module EN) has been changed to reflect the powers available to the CBB under the new CBB Law.

(ii) New Volume 4 Modules

Progress has also been made in finalising some of the outstanding Modules planned for Volume 4, which were intended for later release.

This quarter, we are issuing for the first time new Modules on High-Level Controls (Module HC), Risk Management (Module RM), and CBB Reporting (Module BR). The quarterly prudential return (Form QPR) and annual group return (Form AGR) are also being released.

This material was the subject of a consultation in the autumn of 2006, and reflects many of the comments received. The implementation date for this material has been set as 1 January 2008 (see the Executive Summary Module, Section 2.4).

(iii) Module CIU, Volume 6

Finally, a few changes have been made as a result of the recent issue of the CBB's new rules for collective investment undertakings (contained in Module CIU, Volume 6).

The most significant of these is that administrators, i.e. those only undertaking the activity of administering financial instruments and other assets, are now no longer included in Volume 4 (as persons requiring to be registered). Instead, this activity is now categorised as an ancillary service, and administrators will now be required to be licensed as an ancillary services provider.

This category of license will come under Volume 5 of the CBB Rulebook, when this Volume is eventually completed. In the meantime, administrators will be issued a Directive setting out their obligations.

The other changes are of a more minor textual nature, such as aligning the definition of collective investment undertakings in Volume 4 with that now included in Module CIU.

How to identify the changes

All of the above changes are highlighted in colour in the PDF versions of the Modules included on the CBB's website. All changes to the text of the previous version of Volume 4, however minor, are highlighted.

The searchable version of the Rulebook, in addition, allows users to list changes and compare different versions of the Rulebook.

Finally, the table attached to this letter summarised the changes, and lists which Sections contain the substantive changes noted above.

Finalising the Rest of Volume 4

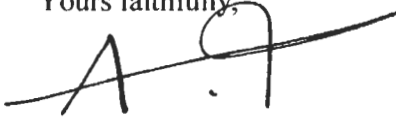
The fourth and final consultation paper, containing the remaining Modules to be developed for inclusion in Volume 4, will be issued later this summer. This final consultation paper will cover Modules TC, GS, PD and DP. It is hoped that these remaining Modules will be finalised and issued before the year-end.

The planned Sector Guides will comprise of Guidance material only, and simply summarise the key requirements of Volume 4 applicable to the categories listed. Because of this, they will not be consulted on, and will be developed once the rest of Volume 4 has been completed and issued.

Further information

Should you have any queries regarding these updates, you may contact the CBB Rulebook team (at rulebook@cbb.gov.bh), or else please speak to your normal supervisory contact.

Yours faithfully,



AbdulRahman Al-Baker

Executive Director – Financial Institutions Supervision

Enclosure: Volume 4 Quarterly Update Table (July 2007)

CBB Rulebook (Volume 4) – July 2007 Quarterly Update

Summary of Changes

N.B. All changes (material or otherwise) are highlighted in colour in the PDF versions of Volume 4, available on the CBB website. Because of the large number of minor presentational changes made, version dates for individual Sections were only changed to July 2007 when changes made in that Section were material. This table lists these material changes. Note that the 'Module History' Section, included in each Module, also provides details of the changes introduced this quarter.

PART A FOLDER		
Module Code	Module Title	Summary of Material Changes (Sections with new version dates)
The Table of Contents for Volume 4 Part A, as well as the individual contents pages for each Module, have all been updated and dated as 'July 2007'. In addition, please note the following material changes to individual Sections:		
UG	User's Guide	UG-A.1: new legal basis text. UG-A.2: updated Module history text. UG-1.2: new text on the CBB's rulemaking instruments
ES	Executive Summary	ES-A.1: new legal basis text. ES-A.2: updated Module history text. ES-1.1: text amended to reflect changes to forms (new license fee form and withdrawal of form for administrators seeking to register). ES-1.2: text amended to reflect changes to Module UG. ES-1.3: text amended to reflect changes to Module AU. ES-1.4: text amended to reflect changes to Module PB. ES-1.5: text amended to reflect issue of Module HC. ES-1.11: text amended to reflect issue of Module RM. ES-1.15: text amended to reflect issue of Module BR. ES-2.1: text amended o/a delay in release of new Modules. ES-2.3: text amended o/a delay in release of new Modules. ES-2.4: text amended o/a delay in release of new Modules.
AU	Authorisation	AU-A.1: new legal basis text. AU-A.2: updated Module history text. AU-1.3: deletion of Section to reflect classification of administrators as ancillary services provider licensees. AU-1.4: change to definition of collective investment undertaking. AU-5.1: new licensing procedures reflecting CBB Law. AU-5.3: deleted Section reflecting cancellation of registration requirements for administrators (now reclassified as ancillary services providers licensees, to be included in Volume 5). AU-5.4: new procedures reflecting CBB Law. AU-5.5: new procedures reflecting CBB Law. AU-6.1: new requirement regarding license application fees. AU-6.2: new annual license fee system.

PB	Principles of Business	PB-A.1: new legal basis text. PB-A.2: new Module history text. PB-1.1: small expansion of Principle 1 to reflect need to disclose fully all relevant information to customers, as required by CBB's Regulations and Directives.
HC	High-level Standards	New Module issued.
AA	Auditors and Accounting Standards	AA-A.1: new legal basis text. AA-A.2: new Module history text. AA-1.2: Rule clarification. AA-1.5: Updated requirements reflecting CBB Law on auditor independence.
GR	General Requirements	GR-A.1: new legal basis text. GR-A.2: new Module history text. GR-B.1: reference to GR-10 removed o/a deletion of Section. GR-4.1: business transfer requirements aligned with CBB Law. GR-5.1: minor changes to controllers' material to align with CBB Law. GR-5.2: clarification of definition of controller. GR-5.3: further guidance provided on criteria for assessing controllers. GR-5.4: controllers' approval procedures aligned with CBB Law. GR-7.1: cessation of business procedures aligned with CBB Law. GR-10: Section deleted (fees moved to AU-6).
CA	Capital Adequacy	CA-A.1: new legal basis text. CA-A.2: updated Module history text. CA-1.1: Minor change to notification period in Rule CA-1.1.4.
BC	Business Conduct	BC-A.1: new legal basis text. BC-A.2: updated Module history text.
CL	Client Assets	CL-A.1: new legal basis text. CL-A.2: updated Module history text.
RM	Risk Management	New Module issued.
FC	Financial Crime	FC-A.1: new legal basis text. FC-A.2: updated Module history text. FC-4.3: updated contact details for STRs.
BR	CBB Reporting	New Module issued.
EN	Enforcement	EN-A.1: updated legal basis text. EN-A.2: updated Module history text. EN-1.1: new legal source Section. EN-2.2: new text on on appointment of investigators, reflecting CBB Law. EN-2.3: new Section on procedures for appointment of investigators. EN-3.1: new legal source Section. EN-4.1: new legal source Section. EN-5.1: new legal source Section. EN-8.1: new legal source Section. EN-9: Section deleted. EN-10.3: updated references to CBB Law. EN-10.4: updated references to CBB Law. EN-10.5: new Section reflecting new CBB Law penalties. EN-10.6: new Section reflecting new CBB Law penalties.
<i>Modules TC, GS, PD, DP, CP, C1, C2, C3 and IF to be issued later.</i>		

PART B FOLDER		
Item Reference	Item Description	Summary of Material Changes
GOT	Glossary of Defined Terms	Changes to definitions of administrator(s); authorised person(s); collective investment undertaking(s); and family. New definitions included for closed-ended fund(s) and custodian(s).
Form 1	Application for a License	Updated Form 1 issued, reflecting new CBB Law licensing procedures.
Form 2	Application for Authorisation of Controller	Updated Form 2 issued, reflecting new CBB Law.
Form 3	Application for Approved Person Status	Updated Form 3 issued, reflecting new CBB Law.
QPR	Quarterly Prudential Return	New Form QPR issued, in conjunction with Module BR.
AGR	Annual Group Return	New Form AGR issued, in conjunction with Module BR.
STR	Suspicious Transaction Report	Updated Form STR issued, reflecting new CBB Law.
ALF	Annual License Fee	New Form ALF issued, reflecting new license fees system (see Chapter AU-6).
FC-(i)(a)	Decree Law No. 54 (2006)	Copy of new Law on AML included for the first time.
FC-(i)(b)	Decree Law No.58 (2006)	Copy of new anti-terrorism law included for the first time.
<i>Items FC-(i), FC-(ii), FC-(iii), FC-(iv) and FC-(v) have not been changed.</i>		