



# **GENERAL REQUIREMENTS MODULE**

<b>MODULE:</b>	<b>GR (General Requirements)</b>
<b>Table of Contents</b>	

	Date Last Changed
<b>GR-A Introduction</b>	
GR-A.1 Purpose	07/2007
GR-A.2 Module History	10/2009
<b>GR-B Scope of Application</b>	
GR-B.1 Investment Firm Licensees	10/2009
<b>GR-1 Books and Records</b>	
GR-1.1 General Requirements	04/2006
GR-1.2 Transaction Records	01/2008
GR-1.3 Other Records	04/2006
<b>GR-2 Corporate and Trade Names</b>	
GR-2.1 Vetting of Names	04/2006
<b>GR-3 Dividends</b>	
GR-3.1 CBB Non-Objection	04/2006
<b>GR-4 Business Transfers</b>	
GR-4.1 CBB Approval	07/2007
<b>GR-5 Controllers</b>	
GR-5.1 Key Provisions	07/2007
GR-5.2 Definition of Controller	07/2007
GR-5.3 Suitability of Controllers	10/2009
GR-5.4 Approval Process	10/2009
<b>GR-6 Close Links</b>	
GR-6.1 Key Provisions	04/2006
GR-6.2 Definition of Close Links	04/2006
GR-6.3 Assessment Criteria	04/2006
<b>GR-7 Cessation of Business</b>	
GR-7.1 CBB Approval	10/2009
<b>GR-8 Appointed Representatives</b>	
GR-8.1 Key Provisions	04/2006
<b>GR-9 Professional Indemnity Coverage</b>	
GR-9.1 Category 2 investment firms and Category 3 investment firms	10/2009
<b>GR-10</b> [This Chapter deleted 07/2007.]	

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

## GR-A.1 Purpose

### *Executive Summary*

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

### *Legal Basis*

- GR-A.1.2** This Module contains the Central Bank of Bahrain ('CBB') Directive regarding general requirements applicable to investment firm licensees, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). Requirements regarding transfers of business (see Chapter GR-4) and controllers (see Chapter GR-5) are also included in Regulations, to be issued by the CBB.

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

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

## GR-A.2 Module History

### *Evolution of Module*

- GR-A.2.1 This Module was first issued in April 2006, by the BMA, as part of the first phase of Volume 4 (Investment Business) to be released. 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.
- GR-A.2.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 4 was updated in July 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.
- GR-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
GR-A.1.2	07/2007	New Rule, classifying this Module as a Directive.
GR-B.1.2	07/2007	Reference to GR-10 in table removed, to reflect deletion of this Chapter (the contents of which have been moved to Module AU).
GR-4	07/2007	Amendments made to align the Chapter with the requirements of the CBB Law.
GR-5.1	07/2007	Minor changes to align controller requirements with the CBB Law.
GR-5.2	07/2007	Clarification of definition of controller.
GR-5.3	07/2007	Clarification of criteria for assessing suitability of controllers.
GR-5.4	07/2007	Alignment of procedures for approving controllers with CBB Law.
GR-7	07/2007	Amendments made to align the Chapter with the requirements of the CBB Law.
GR-1.2.1	01/2008	Clarified the record retention period for customer and transaction records in line with Article 60 of the CBB Law.
GR-9.1.1A	04/2008	Added Guidance concerning limitations on indemnification coverage.
GR-B.1	10/2009	Corrected to reflect applicability of Chapter GR-3.
GR-5.3.3	10/2009	Paragraph changed from Guidance to Rule.
GR-5.3.5	10/2009	Paragraph changed from Guidance to Rule.
GR-5.4.2	10/2009	Amended to read notices of refusal.
GR-7.1	10/2009	Updated to include additional requirements for cessation of business.
GR-9	10/2009	Amended heading to read Key Provisions
GR-9.1.1	10/2009	Amended to include reference to Form PIIR.
GR-9.1.4	10/2009	New rule added regarding professional indemnity insurance needs of licensees.
GR-9.1.7	10/2009	Prior approval changed to prior notification

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

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

### *Superseded Requirements*

GR-A.2.3 This Module supersedes the following provisions contained in circulars or other regulatory instruments:

Circular Ref.	Module Ref.	Subject
BS/07/2004	GR-1	Record-keeping requirements.
BC/8/2000	GR-5	Controllers of, and holdings and transfers of significant ownership or controlling interests in Agency licensees.
Standard Conditions & Licensing Criteria for Licensing for Investment Advisor/Broker	GR-1, GR-9, GR-10	Books and Records; Professional Indemnity Insurance.
Standard Conditions & Licensing Criteria for Licensing Investment Advisor/Consultants	GR-1, GR-9, GR-10	Books and Records; Professional Indemnity Insurance; License Fees.
Standard Conditions & Licensing Criteria for Licensing Stockbroking Company	GR-1, GR-9, GR-10	Books and Records; Professional Indemnity Insurance; License Fees.
Standard Conditions & Standard Criteria for Licensing Broking Company	GR-1, GR-9, GR-10	Books and Records; Professional Indemnity Insurance; License Fees.

GR-A.2.4 Guidance on the implementation and transition to Volume 4 (Investment Business) is given in Module ES (Executive Summary).



MODULE	GR: General Requirements
CHAPTER	GR-B: Scope of Application

## GR-B.1 Investment Firm Licensees

### GR-B.1.1

The requirements in Module GR (General Requirements) apply to all investment firm licensees, with the exception of Chapter GR-3, which applies to Category 1 investment firms and Category 2 investment firms and Chapter GR-9, which applies to Category 2 investment firms and Category 3 investment firms only.

### GR-B.1.2

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

Chapter	Bahraini Investment Firm Licensee	Overseas Investment Firm Licensee
GR-1	GR-1.1 and GR-1.3 apply to the whole firm; GR-1.2 applies to business booked in Bahrain only.	Applies to the Bahrain branch only.
GR-2	Applies to the whole firm.	Applies to the Bahrain branch only.
GR-3	Applies to <u>Category 1 investment firms</u> and <u>Category 2 investment firms</u> .	Does not apply.
GR-4	Applies to the whole firm.	Applies to the Bahrain branch only.
GR-5	Applies to the whole firm.	Applies to the whole firm.
GR-6	Applies to the whole firm.	Applies to the whole firm.
GR-7	Applies to the whole firm.	Applies to the Bahrain branch only.
GR-8	Applies to the whole firm.	Applies to the Bahrain branch only.
GR-9	Applies to <u>Category 2 investment firms</u> and <u>Category 3 investment firms</u> , with respect to Bahrain business.	Applies to the Bahrain branch only.

### GR-B.1.3

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

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

## GR-1.1 General Requirements

**GR-1.1.1** All investment firm licensees must maintain books and records (whether in electronic or hard copy form) sufficient to produce financial statements and show a complete record of the business undertaken by a licensee.

GR-1.1.2 GR-1.1.1 includes accounts, books, files and other records (e.g. trial balance, general ledger, nostro/vostro statements, reconciliations, list of counterparties). It also includes records that substantiate the value of the assets, liabilities and off-balance sheet activities of the licensee (e.g. client activity files and valuation documentation).

**GR-1.1.3** Unless otherwise agreed to by the CBB in writing, records must be kept in either English or Arabic. Any records kept in languages other than English or Arabic must be accompanied by a certified English or Arabic translation. Records must be kept current. The records must be sufficient to allow an audit of the licensee's business or an on-site examination of the licensee by the CBB.

GR-1.1.4 Translations produced in compliance with Rule GR-1.1.3 may be undertaken in-house, by an employee or contractor of the licensee, providing they are certified by an appropriate officer of the licensee.

**GR-1.1.5** Records must be accessible at any time from within the Kingdom of Bahrain, or as otherwise agreed with the CBB in writing.

GR-1.1.6 Where older records have been archived, or in the case of records relating to overseas branches of Bahraini investment firm licensees, the CBB may accept that records be accessible within a reasonably short time frame (e.g. within 5 business days), instead of immediately. The CBB may also agree similar arrangements for overseas investment firm licensees, as well as Bahraini investment firm licensees, where elements of record retention and management have been centralised in another group company, whether inside or outside of Bahrain.

**GR-1.1.7** Paragraphs GR-1.1.1 to GR-1.1.6 apply to Bahraini investment firm licensees, with respect to all its business activities. These requirements also apply to overseas investment firm licensees, but only with respect to the business booked in their branch in Bahrain.

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

## GR-1.2 Transaction Records

**GR-1.2.1** Investment firm licensees must keep completed transaction records for as long as they are relevant for the purposes for which they were made (with a minimum period in all cases of ten years from the date when the transaction was completed). Records of completed transactions must be kept in their original form (whether in hard copy and/or electronic format).

GR-1.2.2 For example, if the original documents are paper, they must be kept in their original form. Electronic payments and receipts may be kept electronically without the need for hard copies. The record format selected must be capable of producing complete and accurate financial, management and regulatory reports, and allow monitoring and review of all transactions.

**GR-1.2.3** Rule GR-1.2.1 applies only to transactions relating to business booked in Bahrain by the licensee. It does not relate to transactions relating to business booked in overseas branches or subsidiaries of the licensee.

GR-1.2.4 In the case of overseas investment firm licensees, Rule GR-1.2.1 therefore only applies to business booked in the Bahrain branch, not in the rest of the company.





MODULE	GR:	General Requirements
CHAPTER	GR 1:	Books and Records

## GR-1.3 Other Records

### *Corporate Records*

#### GR-1.3.1

Investment firm licensees must maintain the following records in original form or in hard copy at their premises in Bahrain:

- (a) Internal policies, procedures and operating manuals;
- (b) Corporate records, including minutes of shareholders', Directors' and management meetings;
- (c) Correspondence with the CBB and records relevant to monitoring compliance with CBB requirements;
- (d) Reports prepared by the investment firm licensee's internal and external auditors; and
- (e) Employee training manuals and records.

#### GR-1.3.2

In the case of Bahraini investment firm licensees, these requirements apply to the licensee as a whole, including any overseas branches. In the case of overseas investment firm licensees, all the requirements of Chapter GR-1 are limited to the business booked in their branch in Bahrain and the records of that branch (see GR-1.1.7).

### *Customer Records*

#### GR-1.3.3

Record-keeping requirements with respect to customer records, including customer identification and due diligence records, are contained in Module FC (Financial Crime).

<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR 2: Corporate and Trade Names</b>

## GR-2.1 Vetting of Names

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

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

GR-2.1.3 In approving a corporate or trade name, the CBB seeks to ensure that it is sufficiently distinct as to reduce possible confusion with other unconnected businesses, particularly those operating in the financial services sector. The CBB also seeks to ensure that names used by unregulated subsidiaries do not suggest those subsidiaries are in fact regulated.

MODULE	GR: General Requirements
CHAPTER	GR-3: Dividends

## GR-3.1 CBB Non-Objection

**GR-3.1.1** Bahraini investment firm licensees, other than Category 3 investment firms, must obtain a letter of no-objection from the CBB to any dividend proposed, before submitting a proposal for a distribution of profits to a shareholder vote.

GR-3.1.2 The CBB will grant a no-objection letter where it is satisfied that the level of dividend proposed is unlikely to leave the licensee vulnerable – for the foreseeable future – to breaching the CBB’s financial resources requirements, taking into account (as appropriate) trends in the licensee’s business volumes, expenses, trend performance and investment environment.

GR-3.1.3 To facilitate the prior approval required under Paragraph GR-3.1.1, investment firm licensees subject to Paragraph GR-3.1.1 should provide the CBB with a copy of the proposed agenda for the annual general meeting or other special meeting, noting the licensee’s intended declared dividends for the coming year.

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

## GR-4.1 CBB Approval

**GR-4.1.1** An investment firm licensee must seek prior written approval from the CBB before transferring any of its business to a third party.

GR-4.1.2 Rule GR-4.1.1 is intended to apply to circumstances where an investment firm licensee wishes to sell all or part of its business to a third party. It does not apply where an investment firm licensee is simply transferring client assets to a third party, on instruction from the client concerned.

**GR-4.1.3** In the case of a Bahraini investment firm licensee, Chapter GR-4 applies both to its business booked in Bahrain and in the firm's overseas branches. In the case of an overseas investment firm licensee, Chapter GR-4 applies only to business booked in the firm's Bahrain branch.

**GR-4.1.4** In all cases, CBB approval to transfer business will only be given where:

- (a) The transfer of business will not damage or otherwise prejudice the legitimate interests of the licensee's customers;
- (b) The transferee is duly licensed to undertake the business which it is to receive; and
- (c) The CBB is satisfied that the transfer will not breach any applicable laws or regulations, and would not create any supervisory concerns.

GR-4.1.5 In assessing the criteria outlined in Paragraph GR-4.1.4, the CBB will, amongst other factors, take into account the financial strength of the transferee; its capacity to manage the business being transferred; its track record in complying with applicable regulatory requirements; and (where applicable) its track record in treating customers fairly. The CBB will also take into account the impact of the transfer on the transferor, and any consequences this may have for the transferor's remaining customers.

**GR-4.1.6** Investment firm licensees seeking to obtain the CBB's permission to transfer business must apply to the CBB in writing, in the form of a covering letter together with supporting attachments. Unless otherwise directed by the CBB, the application must provide:

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

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

## **GR-4.1 CBB Approval (continued)**

GR-4.1.7 Firms intending to apply to transfer business are advised to contact the CBB at the earliest possible opportunity, prior to submitting a formal application, in order that the CBB may determine the nature and level of documentation to be provided and the need for an auditor or other expert opinion to be provided to support the application. The documentation specified in Paragraph GR-4.1.6 may be varied by the CBB, depending on the nature of the proposed transfer, such as the materiality of the business concerned and its impact on customers.

GR-4.1.8 The CBB's approval may be given subject to any conditions deemed appropriate by the CBB. In all cases where additional requirements are imposed, the CBB shall state the reasons for doing so.

**GR-4.1.9** At its discretion, the CBB may require that a notice of proposed transfer of business be published in the Official Gazette, and/or in at least two local daily newspapers (one in Arabic, the other in English), in order to give affected customers the right to comment on the proposed transfer. Where such a requirement has been imposed, the CBB's decision on the application will also be published in the Official Gazette and in at least two local daily newspapers. In all such cases, the costs of publication must be met by the transferor.

GR-4.1.10 Publication under paragraph GR-4.1.9 will generally only be required where a proposed transfer involves a large number of customers or is otherwise deemed necessary in order to protect customer interests.

GR-4.1.11 Investment firm licensees are also reminded of the requirements regarding client assets contained in Module CL (Client Assets).

GR-4.1.12 The requirements in this Chapter are based on the powers available to the CBB in Articles 66 to 68 of the CBB Law.

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

## GR-5.1 Key Provisions

**GR-5.1.1** Whenever they are aware of such cases, investment firm licensees must obtain prior approval from the CBB for any of the following changes to their controllers (as defined in Section GR-5.2):

- (a) A new controller;
- (b) An existing controller increasing its holding from below 20% to above 20%;
- (c) An existing controller increasing its holding from below 50% to above 50%; and
- (d) An existing controller reducing its holding from above 50% to below 50%.

GR-5.1.2 Articles 52 to 56 of the CBB Law require notification to the CBB of all controllers of licensees and of listed companies; it further gives the CBB the right to refuse approval of controllers if deemed damaging to the interests of the market, customers, or in contravention of the criteria set by the CBB.

GR-5.1.3 [This Paragraph deleted 07/2007.]

**GR-5.1.4** Requests for approval under Paragraph GR-5.1.1 must be made by submitting a duly completed Form 2 (Application for Authorisation of Controller) to the CBB. Notification must be made by the controller or intended controller, and by the licensee where it is aware of the change.

**GR-5.1.5** If, as a result of circumstances outside the investment firm licensee's knowledge and/or control, one of the changes specified in Paragraph GR-5.1.1 is triggered prior to CBB approval being sought or obtained, the investment firm licensee must notify the CBB as soon as it becomes aware of the fact and no later than 15 calendar days after the change occurs.

**GR-5.1.6** For approval under Rule GR-5.1.1 to be granted, the applicant must satisfy the CBB that the proposed change in controller poses no undue risks to the licensee or its customers, and is not damaging to the interests of the market, as defined in the suitability criteria for controllers, contained in Section GR-5.3.

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

## GR-5.1      Key Provisions (continued)

**GR-5.1.7**      An approval of controller is valid for the period specified in the approval letter issued by the CBB. The CBB may impose any restrictions that it considers necessary to be observed when granting its approval.

GR-5.1.7A      The approval process is specified in Section GR-5.4.

**GR-5.1.8**      Investment firm licensees must submit, within 3 months of their financial year-end, a report on their controllers. This report must identify all controllers of the licensee, as defined in Section GR-5.2.

MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

## GR-5.2 Definition of Controller

### GR-5.2.1

A controller of an investment firm licensee is a natural or legal person who, either alone or with his associates:

- (a) Holds 10% or more of the shares in the licensee ('L'), or is able to exercise (or control the exercise of) more than 10% of the voting power in L; or
- (b) Holds 10% or more of the shares in a parent undertaking ('P') of L, or is able to exercise (or control the exercise of) more than 10% of the voting power in P; or
- (c) Is able to exercise significant influence over the management of L or P.

### GR-5.2.2

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

- (a) In the case of natural persons, a member of the controller's family;
- (b) An undertaking of which a controller is a Director;
- (c) A person who is an employee or partner of the controller;
- (d) If the controller is a corporate entity, a Director of the controller, a subsidiary of the controller, or a Director of any subsidiary undertaking of the controller.

### GR-5.2.3

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



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

## GR-5.3 Suitability of Controllers

**GR-5.3.1** Investment firm licensees must satisfy the CBB of the suitability of their (proposed) controllers.

- GR-5.3.2 In assessing the suitability of controllers who are natural persons, the CBB has regard to their professional and personal conduct, including, but not limited to, the following:
- The propriety of a person's conduct, whether or not such conduct resulted in conviction for a criminal offence, the contravention of a law or regulation, or the institution of legal or disciplinary proceedings;
  - A conviction or finding of guilt in respect of any offence, other than a minor traffic offence, by any court or competent jurisdiction;
  - 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;
  - Whether the person has been the subject of any disciplinary proceeding by any government authority, regulatory agency or professional body or association;
  - The contravention of any financial services legislation or regulation;
  - Whether the person has ever been refused a license, authorisation, registration or other authority;
  - Dismissal or a request to resign from any office or employment;
  - Disqualification by a court, regulator or other competent body, as a Director or as a manager of a corporation;
  - Whether the person has been a Director, partner or manager of a corporation or partnership which has gone into liquidation or administration or where one or more partners or managers have been declared bankrupt whilst the person was connected with that partnership or corporation;
  - The extent to which the person, has been truthful and open with regulators;
  - Whether the person has ever been adjudged bankrupt, entered into any arrangement with creditors in relation to the inability to pay due debts, or failed to satisfy a judgement debt under a court order or has defaulted on any debts;
  - The financial resources of the person and the likely stability of their shareholding, and their track record as a controller or significant investor in financial institutions;
  - Existing Directorships or ownership of more than 20% of the capital or voting rights of any financial institution in the Kingdom of Bahrain or elsewhere, and the potential for conflicts of interest that such Directorships or ownership may imply;
  - The legitimate interests of investors, creditors and shareholders (including minority shareholders) of the licensee;
  - Whether the approval of a controller is or could be detrimental to Bahrain's financial sector; and
  - Whether the person is able to deal with existing shareholders and the Board in a constructive and co-operative manner.

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

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

#### GR-5.3.3

Natural persons who intend to take a stake of 20% or more in a Bahraini investment firm licensee are subject to enhanced scrutiny, given the CBB's position as home supervisor of such licensees. The level of scrutiny and the expected compliance with the above standards become more onerous as the level of proposed ownership increases. Natural persons will not normally be approved to take majority control (i.e. a stake of 50% or more of either the capital or voting rights) of a Bahraini investment firm licensee.

#### GR-5.3.4

In assessing the suitability of controllers who are legal persons, CBB has regard to their financial standing, judicial and regulatory record, and standards of business practice and reputation, including, but not limited to, the following:

- (a) The financial strength of the controller, its parent(s) and other members of its group, its implications for the investment firm licensee and the likely stability of the controller's shareholding;
- (b) Whether the controller or members of its group has ever entered into any arrangement with creditors in relation to the inability to pay due debts;
- (c) The controller's jurisdiction of incorporation, location of Head Office, group structure and close links, and the implications for the investment firm licensee as regards effective supervision of the investment firm licensee and potential conflicts of interest;
- (d) The controller's (and other group members') propriety and general standards of business conduct, including the contravention of any laws or regulations, or the institution of disciplinary proceedings by a government authority, regulatory agency or professional body;
- (e) Any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance or other misconduct;
- (f) Any criminal actions instigated against the controller or other members of its group, whether or not this resulted in an adverse finding;
- (g) The extent to which the controller or other members of its group have been truthful and open with regulators and supervisors;
- (h) Whether the person has ever been refused a license, authorisation, registration or other authority;
- (i) The person's track record as a controller or investor in financial institutions;
- (j) The legitimate interests of investors, creditors and shareholders of the licensee;
- (k) Whether their approval as a controller is or could be detrimental to Bahrain's financial sector; and
- (l) Whether the person is able to deal with existing shareholders and the Board in a constructive manner.

MODULE	GR: General Requirements
CHAPTER	GR-5: Controllers

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

#### GR-5.3.5

Legal persons who intend to take a stake of 20% or more in a Bahraini investment firm licensee are subject to enhanced scrutiny, given the CBB's position as home supervisor of such licensees. The level of scrutiny and of expected compliance with the above standards becomes more onerous as the level of proposed ownership increases. In particular, unregulated legal persons will not normally be approved to take majority control (i.e. a stake of 50% or more of either the capital or voting rights of a Bahraini investment firm licensee, unless the proposed parent is a well-established business (that satisfies the above conditions), and its ownership would not pose undue conflicts of interest. Regulated legal persons will normally only be approved to take majority control where – in addition to the above conditions – the resulting group would be subject to effective consolidated supervision in accordance with relevant international standards; and the home supervisor of the parent entity has agreed to the proposed acquisition, as well as to the sharing of relevant prudential information for supervisory purposes (expressed, if necessary, through the signing of a Memorandum of Understanding between the CBB and the home supervisor, setting out their respective supervisory responsibilities).

#### GR-5.3.6

The CBB may contact references and supervisory bodies in connection with any information provided to support an application for controller. The CBB may also ask for further information, in addition to that provided in the Form 2, if required to satisfy itself as to the suitability of the applicant.

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

## GR-5.4 Approval Process

### GR-5.4.1

Within 3 months of receipt of an approval request under Paragraph GR-5.1.1, the CBB will issue a written notice of approval (or of refusal, if it is not satisfied that the person concerned is suitable to become a controller of the investment firm licensee). The notice of refusal will specify the reasons for the objection and specify the applicant's right of appeal. Where an approval notice is given, it will specify the period for which it is valid and any conditions that may be applied.

GR-5.4.2 Article 53 allows the CBB up to 3 months in which to respond to an application, although the CBB normally aims to respond within 30 calendar days. Notices of refusal have to be approved by an Executive Director of the CBB. The applicant has 30 calendar days from the date of a notice in which to appeal a decision to refuse the application or any conditions imposed as a condition of approval. The CBB then has 30 calendar days from the date of the appeal in which to consider any mitigating evidence submitted and make a final determination. See Module EN (Enforcement).

GR-5.4.3 Where a person has become a controller by virtue of their shareholding in contravention of Paragraph GR-5.1.1, or a notice of refusal has been served on them under Paragraph GR-5.4.1 and the period of appeal has expired, the CBB may, by notice in writing served on the person concerned, instruct the person concerned to transfer such shares, or refrain from exercising voting rights in respect of such shares.

GR-5.4.4 If the person concerned fails to take the action specified under Paragraph GR-5.4.3, then the CBB may seek a court order to take appropriate measures: these may include forcing the person to sell their shares.

GR-5.4.5 The powers available to the CBB that are described in Paragraphs GR-5.4.3 and GR-5.4.4 are specified in Article 56 of the CBB Law.

GR-5.4.6 In addition to the above requirements, investment firm licensees are encouraged to notify the CBB as soon as they become aware of events that are likely to lead to major changes in their controllers. Any supervisory implications of such changes can then be discussed prior to the filing of a formal approval request.

<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR-6: Close Links</b>

## GR-6.1 Key Provisions

GR-6.1.1 Condition 3 of the CBB's licensing conditions specifies, amongst other things, that investment firm licensees must satisfy the CBB that their close links do not prevent the effective supervision of the licensee and otherwise pose no undue risks to the licensee. (See Paragraph AU-2.3.1).

GR-6.1.2 Applicants for an investment firm license must provide details of their close links, as provided for under Form 1 (Application for a License). (See Paragraph AU-5.1.1).

**GR-6.1.3** Investment firm licensees must submit to the CBB, within 3 months of their financial year-end, a report on their close links. The report must identify all undertakings closely linked to the licensee, as defined in Section GR-6.2.

GR-6.1.4 Investment firm licensees may satisfy the requirement in Paragraph GR-6.1.3 by submitting a corporate structure chart, identifying all undertakings closely linked to the licensee.

**GR-6.1.5** Investment firm licensees must provide information on undertakings with which they are closely linked, as requested by the CBB.

<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR-6: Close Links</b>

## GR-6.2 Definition of Close Links

### GR-6.2.1

An investment firm licensee ('L') has close links with another undertaking ('U'), if:

- (a) U is a parent undertaking of L;
- (b) U is a subsidiary undertaking of L;
- (c) U is a subsidiary undertaking of a parent undertaking of L;
- (d) U, or any other subsidiary undertaking of its parent, owns or controls 20% or more of the voting rights or capital of L; or
- (e) L, any of its parent or subsidiary undertakings, or any of the subsidiary undertakings of its parent, owns or controls 20% or more of the voting rights or capital of U.

<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR-6: Close Links</b>

### GR-6.3 Assessment Criteria

GR-6.3.1 In assessing whether an investment firm licensee's close links may prevent the effective supervision of the firm, or otherwise poses no undue risks to the investment firm licensee, the CBB takes into account the following:

- (a) Whether the CBB will receive adequate information from the investment firm licensee, and those with whom the licensee has close links, to enable it to determine whether the licensee is complying with CBB requirements;
- (b) The structure and geographical spread of the licensee, its group and other undertakings with which it has close links, and whether this might hinder the provision of adequate and reliable flows of information to the CBB, for instance because of operations in territories which restrict the free flow of information for supervisory purposes;
- (c) In the case of an overseas investment firm licensee, whether the investment firm licensee and its group will be subject to supervision on a consolidated basis (for example, if a financial resources requirement is determined for the group as a whole); and
- (d) Whether it is possible to assess with confidence the overall financial position of the group at any particular time, and whether there are factors that might hinder this, such as group members having different financial year ends or auditors, or the corporate structure being unnecessarily complex and opaque.



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

## GR-7.1 CBB Approval

### GR-7.1.1

As specified in Article 50 of the CBB Law, an investment firm licensee wishing to cease to provide all or any of its licensed regulated services, completely or at any of its branches, must obtain prior written approval from the CBB.

### GR-7.1.2

If the investment firm licensee wishes to transfer client assets to a third party, it must also comply with the requirements contained in Chapter GR-4.

### GR-7.1.3

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

### GR-7.1.4

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

- (a) Full details of the business to be terminated;
- (b) The rationale for the cessation;
- (c) How the licensee proposes to cease business;
- (d) Notice of an Extraordinary Meeting setting out the agenda to discuss and approve the cessation, and inviting the CBB for such meeting;
- (e) Evidence that the proposed cessation has been duly authorised by the licensee (such as a certified copy of a Board resolution approving the cessation);
- (f) Formal request to the CBB for the appointment of a liquidator acceptable to the CBB;
- (g) A cut-off date by which the licensee will stop its operations;
- (h) If the investment firm licensee wishes to cease its whole business, confirmation that the licensee will not enter into new business with effect from the cut-off date;
- (i) Once the CBB has given its approval to an application to cease business, the licensee must publish a notice of its intention to cease business in two local daily newspapers (one in Arabic, the other in English). Notices must also be displayed in the premises (including any branch offices) of the licensee concerned. These notices must be given not less than 30



<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR-7: Cessation of Business</b>

## GR-7.1 CBB Approval (continued)

calendar days before the cessation is to take effect, and must include such information as the CBB may specify;

- (j) The audited accounts of the licensee as of the last date on which it stopped operations. The commencement of such accounts should be the beginning of the financial year of the licensee;
- (k) If applicable, an assessment of the impact of the cessation on any customers directly affected by the cessation, and any mitigating factors or measures;
- (l) If applicable, an assessment of the impact of the cessation on the licensee's remaining business and customers, and any mitigating factors or measures; and
- (m) The final liquidator's report of the licensee.

GR-7.1.5 Licensees intending to apply to cease business are advised to contact the CBB at the earliest possible opportunity, prior to submitting a formal application, in order that the CBB may determine the nature and level of documentation to be provided and the need for an auditor or other expert opinion to be provided to support the application. The documentation specified in Paragraph GR-7.1.4 may be varied by the CBB, depending on the nature of the proposed cessation, such as the materiality of the business concerned and its impact on customers.

GR-7.1.6 Approval to cease business will generally be given where adequate arrangements have been made to offer alternative arrangements to any affected customers. The CBB's approval may be given subject to any conditions deemed appropriate by the CBB. In all cases where additional requirements are imposed, the CBB shall state the reasons for doing so.

GR-7.1.7 The CBB will normally require that the notices required under Rule GR-7.1.4 (i) include a statement that written representations concerning the cessation of business may be submitted to the CBB.

GR-7.1.8 Upon satisfactorily meeting the requirements set out in GR-7.1.4, the licensee must surrender the original license certificate issued by the Licensing & Policy Directorate at the time of establishment, and submit confirmation of the cancellation of its Commercial Registration from the Ministry of Industry and Commerce.

GR-7.1.9 Where the CBB has given its approval to cancel or amend a license, then it will also publish its decision in the Official Gazette, as well as in two local daily newspapers (one in Arabic, the other in English), once this decision has been implemented. The publication cost of these notices is to be met by the licensee concerned.

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

## GR-7.1 CBB Approval (continued)

**GR-7.1.10** The licensee must continue to comply with all applicable CBB requirements until such time as it is formally notified by the CBB that its obligations have been discharged.

**GR-7.1.11** An investment firm licensee in liquidation must continue to meet its contractual and regulatory obligations to customers and creditors.

**GR-7.1.12** If a Category 2 investment firm or a Category 3 investment firm applies to the CBB for voluntary surrender of its authorization, it must ensure that suitable arrangements are in place for professional indemnity coverage, to continue in respect of any unreported claims arising from past sales or advice, in accordance with Rule GR-9.1.8.

<b>MODULE</b>	<b>GR: General Requirements</b>
<b>CHAPTER</b>	<b>GR-8: Appointed Representatives</b>

## GR-8.1 Key Provisions

**GR-8.1.1** An investment firm licensee may appoint as its representative a person who is not directly authorised by the CBB, known as an appointed representative. Investment firm licensees that appoint appointed representatives are called licensed principals.

GR-8.1.2 Appointed representatives are persons acting on behalf, and under the overall control of a licensed principal. They are effectively an extension of the licensed principal. The licensed principal takes full responsibility for the actions of their appointed representatives vis-à-vis the CBB.

**GR-8.1.3** An appointed representative may be a natural or corporate person.

**GR-8.1.4** An appointed representative may act on behalf of no more than one investment firm licensee, or a single corporate group comprising several licensed entities.

**GR-8.1.5** An appointed representative may only undertake on behalf of its licensed principal the types of business for which the licensed principal is authorised to undertake by the CBB.



MODULE	GR: General Requirements
CHAPTER	GR-8: Appointed Representatives

## GR-8.1 Key Provisions (continued)

### GR-8.1.6

An appointment by an investment firm licensee of an appointed representative must be the subject of a written contract of agency. This contract must state, inter alia:

- (a) The name of the appointed representative;
- (b) The name of the licensed principal;
- (c) That the licensed principal is responsible for the actions and conduct of the representative concerned when acting or purporting to act under it, with respect to regulated activities (without prejudice to any rights to bring actions for damages by the licensed principal against the appointed representative or vice versa);
- (d) The type(s) of business for which the agency is granted;
- (e) That the appointed representative allows full access to the CBB, the licensed principal and the licensed principal's external auditors, given reasonable notice, to all records relating to the business falling within its agency;
- (f) The terms and conditions for the handling of and accounting for client money, including a statement that the appointed representative is acting solely as agent of the licensed principal in the handling of such money; and
- (g) The conditions for cancellation, which cannot alter or cancel the continuing responsibility of the investment firm licensee to take responsibility for the appointed representative's action and conduct (without prejudice to any rights to bring actions for damages by the licensed firm against the representative or vice versa).



MODULE	GR: General Requirements
CHAPTER	GR-8: Appointed Representatives

## GR-8.1 Key Provisions (continued)

GR-8.1.7 The powers of access given to the CBB and the licensed principal's auditors by sub-Paragraph GR-8.1.6 (e) are in order to ensure that the agency's relationship between the licensed principal and the appointed representative does not impede the effective supervision of the licensed principal by the CBB.

**GR-8.1.8** Once appointed, the licensed principal must take full responsibility for the actions and conduct of the appointed representative, in respect of any matters of compliance with, or breach of, the requirements of the CBB Rulebook that relate to activities of the appointed representative acting within the real or implied authority of the licensed principal. This is without prejudice to any rights of redress the licensed principal may have at law against the appointed representative.

**GR-8.1.9** The licensed principal must ensure that the appointed representative complies with the provisions of the CBB Rulebook applicable to the activities being undertaken in accordance with the agency, including, but not limited to:

- (a) Record-keeping;
- (b) Business conduct; and
- (c) Financial crime requirements.

**GR-8.1.10** The licensed principal must ensure that periodic monitoring of the appointed representative is undertaken to ensure the adequacy of the systems and controls in place. The licensed principal or an appropriately qualified independent party may undertake this monitoring.

**GR-8.1.11** All appointments of appointed representatives, variations in terms of appointment and cancellations of appointment must be notified in writing to the CBB no later than 5 working days after they have taken place.

**GR-8.1.12** An appointed representative must at all times act within the limits of his authority in the conduct of activities covered by the terms of the agency agreement.

**GR-8.1.13** An appointed representative must disclose to clients the relationship that he has with the licensed principal and any other parties, that could reasonably be considered material to the investment transaction concerned.



MODULE	GR: General Requirements
CHAPTER	GR-9: Professional Indemnity Coverage

## GR-9.1 Key Provisions

### GR-9.1.1

Category 2 investment firms and Category 3 investment firms must maintain professional indemnity coverage. The professional indemnity coverage must be obtained from an insurance firm acceptable to the CBB and licensed in the Kingdom of Bahrain. Category 2 investment firms and Category 3 investment firms must submit a Professional Indemnity Insurance Return (Form PIIR) on a quarterly basis as part of the Quarterly Prudential Return Form (ref. BR-1.1). Additionally, they must provide, upon request, evidence to the CBB of the coverage in force.

GR-9.1.1A In accordance with Paragraph EN-B.3.1, investment firm licensees may not enter into or make a claim under a contract of insurance that is intended to, or has the effect of, indemnifying them from the financial penalties provided for in Module EN.

GR-9.1.2 The requirement to maintain professional indemnity coverage will normally be met by the investment firm licensee concerned obtaining an insurance policy from an insurance firm. The CBB may also accept an insurance indemnity policy issued at group level, e.g. issued with respect to the parent of the investment firm licensee, provided the terms of the policy explicitly provide indemnity coverage with respect to the investment firm licensee. Similarly, overseas investment firm licensees may provide evidence of professional indemnity coverage maintained by their head office, providing that the coverage of the professional indemnity extends to the operations of the branch operating in Bahrain.

### GR-9.1.3

Upon written application to the CBB, the requirement in Rule GR-9.1.1 may instead be met by the investment firm licensee depositing with a retail bank licensed to operate in the Kingdom of Bahrain, an amount, specified by the CBB, to be held in escrow against future claims. This amount will not be less than the minimum required policy limit.

### GR-9.1.4

An investment firm licensee must assess its insurance needs with respect to professional indemnity to ensure its adequacy to the level of business undertaken, notwithstanding the minimum limit of indemnity.

### GR-9.1.5

The minimum limit of indemnity is BD 100,000 for Category 2 investment firms and BD 75,000 for Category 3 investment firms.

### GR-9.1.6

The maximum excess or deductible allowable under the policy shall be BD 15,000.



MODULE	GR: General Requirements
CHAPTER	GR-9: Professional Indemnity Coverage

## GR-9.1 Key Provisions (continued)

### GR-9.1.7

Unless otherwise agreed in writing with the CBB, the policy must contain a clause that it may not be cancelled or lapsed without the prior **notification** of the CBB. The policy must also contain a provision for an automatic extended reporting period in the event that the policy is cancelled or lapsed, such that claims relating to the period during which the policy was in force may subsequently still be reported.

### GR-9.1.8

If a Category 2 investment firm or Category 3 investment firm applies to the CBB for a voluntary surrender of its authorisation, it must ensure that suitable arrangements are in place for professional indemnity coverage to continue in respect of any unreported claims arising from past sales or advice.

### GR-9.1.9

The CBB will not allow a voluntary surrender of authorisation to take effect until the investment firm licensee, in the opinion of the CBB, has discharged all its regulatory responsibilities to its clients. See also Section AU-5.5, on the cancellation of authorisation.

### GR-9.1.10

As provided for in Module ES, professional indemnity coverage requirements must be met by Category 2 investment firms and Category 3 investment firms, which were licensed prior to the introduction of Volume 4 (Investment Business) in April 2006, by December 31, 2006. Category 2 investment firms and Category 3 investment firms licensed after April 2006 are required to comply with the CBB's professional indemnity coverage requirements, from the point they are given a license.

### GR-9.1.11

Category 2 investment firms and Category 3 investment firms must prominently display in their premises a notice stating that they have in place professional indemnity coverage that meets the minimum requirements of the CBB and the period of coverage, such that claims relating to the period during which the policy was in force may subsequently still be reported.

### GR-9.1.12

The above notice may either be issued by the insurance company on behalf of the investment firm licensee, or by the licensee itself. The notice should specify the main features of the coverage maintained (or, where relevant, the amount of funds placed in escrow, in accordance with Rule GR-9.1.3). It should also specify the procedures for submitting a claim under the coverage maintained.