



PRINCIPLES OF BUSINESS MODULE

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MODULE	PB: Principles of Business
CHAPTER	PB-A: Introduction

PB-A.1 Purpose

Executive Summary

- PB-A.1.1 The Principles of Business are a general statement of the fundamental obligations of all **Central Bank of Bahrain ('CBB')** investment firm licensees and approved persons. They serve as a basis for other material in Volume 4 (Investment Business), and help address specific circumstances not covered elsewhere in the Rulebook.
- PB-A.1.2 The Principles of Business have the status of Rules and apply alongside other Rules contained in Volume 4 (Investment Business). However, these other Rules do not exhaust the fundamental obligations contained in the Principles. Compliance with all other Rules, therefore, does not necessarily guarantee compliance with the Principles of Business.

Legal Basis

- PB-A.1.3** This Module contains the CBB's Directive relating to Principles of Business 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'). The Directive in this Module is applicable to all investment firm licensees (including their approved persons).
- PB-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

MODULE	PB: Principles of Business
CHAPTER	PB-A: Introduction

PB-A.2 Module History

Evolution of Module

PB-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.

PB-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.

PB-A.2.3 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
PB-A.1	07/2007	New Rule PB-A.1.3 introduced, categorising this Module as a Directive.
PB-1.1.1	07/2007	Small expansion of Principle 1 to refer to disclosure of all relevant information to customers, as required by CBB Regulations and Directives.

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

Superseded Requirements

PB-A.2.5 This Module does not supersede any previously issued circulars or other regulatory instruments.

PB-A.2.6 Guidance on the implementation and transition to Volume 4 (Investment Business) is given in Chapter ES-2.



MODULE	PB: Principles of Business
CHAPTER	PB-B: Scope of Application

PB-B.1 Scope of Application

PB-B.1.1

The 10 Principles of Business apply to all **CBB** investment firm licensees, in accordance with Paragraph PB-B.1.2. Principles 1-8 (Paragraphs PB-1.1 to PB-1.8 inclusive) also apply to all approved persons, in accordance with Paragraph PB-B.1.3.

PB-B.1.2

Principles 1 to 10 apply to activities carried out by the licensee, including activities carried out through overseas branches (if any). Principles 9 and 10 also take into account any activities of other members of the group of which the licensee is a member.

PB-B.1.3

Principles 1 to 8 apply to approved persons in respect of the controlled function for which they have been approved.

PB-B.1.4

Principles 1 to 8 do not apply to behaviour by an approved person with respect to any other functions or activities they may undertake. However, behaviour unconnected to their controlled function duties may nonetheless be relevant to an assessment of that person's fitness and propriety.

PB-B.1.5

The **CBB's** requirements regarding approved persons and controlled functions are located in Module AU (Authorisation).

MODULE	PB: Principles of Business
CHAPTER	PB-B: Scope of Application

PB-B.2 Non-compliance

- PB-B.2.1 Breaching a Principle of Business makes the investment firm licensee or approved person concerned liable to enforcement action. In the case of a licensee, this may call into question whether they continue to meet the licensing conditions (see Chapter AU-2). In the case of an approved person, this may call into question whether they continue to meet the “fit and proper” requirements for the function for which they have been approved (see Chapter AU-3).
- PB-B.2.2 Module EN (Enforcement) sets out the **CBB's** policy and procedures on enforcement action.

MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.1 Principle 1 – Integrity

PB-1.1.1	<p><u>Investment firm licensees</u> and <u>approved persons</u> must observe high standards of integrity and fair dealing. They must be honest and straightforward in their dealings with <u>clients</u>, and disclose fully all relevant information to <u>clients</u>, as required by the CBB's Regulations and Directives.</p>
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MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.2 Principle 2 – Conflicts of Interest

PB-1.2.1 Investment firm licensees and approved persons must take all reasonable steps to identify, and prevent or manage, conflicts of interest that could harm the interests of a client.

MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.3 Principle 3 – Due Skill, Care and Diligence

PB-1.3.1	<u>Investment firm licensees</u> and <u>approved persons</u> must act with due skill, care and diligence.
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MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.4 Principle 4 – Confidentiality

PB-1.4.1

Investment firm licensees and approved persons must observe in full any obligations of confidentiality, including with respect to client information. This requirement does not over-ride lawful disclosures.



MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.5 Principle 5 – Market Conduct

PB-1.5.1 Investment firm licensees and approved persons must observe proper standards of market conduct, and avoid action that would generally be viewed as improper.

MODULE	PB: Principles of Business
CHAPTER	PB 1: The Principles

PB-1.6 Principle 6 – Customer Assets

PB-1.6.1	<p><u>Investment firm licensees</u> and <u>approved persons</u> must take reasonable care to safeguard the assets of customers for which they are responsible.</p>
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MODULE	PB: Principles of Business
CHAPTER	PB 1: The Principles

PB-1.7 Principle 7 – Customer Interests

PB-1.7.1

Investment firm licensees and approved persons must pay due regard to the legitimate interests and information needs of their clients and communicate with them in a fair and transparent manner. Investment firm licensees and approved persons, when dealing with clients who are entitled to rely on their advice or discretionary decisions, must take reasonable care to ensure the suitability of such advice or decisions.



MODULE	PB: Principles of Business
CHAPTER	PB-1: The Principles

PB-1.8 Principle 8 – Relations with Regulators/Supervisors

PB-1.8.1

Investment firm licensees and approved persons must act in an open and co-operative manner with the **CBB** and other regulatory/supervisory bodies under whose authority they come under. They must take reasonable care to ensure that their activities comply with all applicable laws and regulations.

MODULE	PB: Principles of Business
CHAPTER	PB 1: The Principles

PB-1.9 Principle 9 – Adequate Resources

PB-1.9.1	<u>Investment firm licensees</u> must maintain adequate human, financial and other resources sufficient to run their business in an orderly manner.
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MODULE	PB: Principles of Business
CHAPTER	PB 1: The Principles

PB-1.10 Principle 10 – Management, Systems & Controls

PB-1.10.1	<p><u>Investment firm licensees</u> must take reasonable care to ensure that their affairs are managed effectively and responsibly, with appropriate systems and controls in relation to the size and complexity of their operations. <u>Investment firm licensees'</u> systems and controls, as far as is reasonably practical, must be sufficient to manage the level of risk inherent in their business and ensure compliance with the CBB Rulebook.</p>
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