



PRINCIPLES OF BUSINESS



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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”) specialised licensees and approved persons. They serve as a basis for other material in Volume 5 (Specialised Licensees), 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 5 (Specialised Licensees). 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 **(as amended from time to time)** 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 specialised licensees (including their approved persons) where applicable.

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 October 2010. Any material changes that are subsequently made to this Module are annotated with the calendar quarter date in which the change is made; Chapter UG-3 provides further details on Rulebook maintenance and version control.

PB-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
PB-A.1.3	01/2011	Clarified legal basis.



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 specialised licensees, in accordance with Paragraph PB-B.1.2. Principles 1-8 also apply to all approved persons, in accordance with Paragraph PB-B.1.5.

PB-B.1.2 These principles are addressed to all specialised licensees (where applicable).

PB-B.1.3 Principles 1 to 10 apply to activities carried out by the specialised licensee, including activities carried out through overseas branches (if any).

PB-B.1.4 The CBB expects specialised licensees to take into account any activities of other members of the group of which the specialised licensee is a member for Principles 9 and 10.

PB-B.1.5 Principles 1 to 8 apply to approved persons in respect of the controlled function for which they have been approved.

PB-B.1.6 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.1.7 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 specialised 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 Principles

Principle 1 – Integrity

PB-1.1.1

Specialised licensees and approved persons must observe high standards of integrity and fair dealing. They must be honest and straightforward in their dealings with customers, and provide full disclosure of all relevant information to customers, as required by the CBB's Regulations and Directives.

Principle 2 – Conflicts of Interest

PB-1.1.2

Specialised 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 customer.

Principle 3 – Due Skill, Care and Diligence

PB-1.1.3

Specialised licensees and approved persons must act with due skill, care and diligence.

Principle 4 – Confidentiality

PB-1.1.4

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

Principle 5 – Market Conduct

PB-1.1.5

Specialised 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-1.1 Principles (Continued)

Principle 6 – Customer Assets

PB-1.1.6 Specialised licensees and approved persons must take reasonable care to safeguard the assets of customers for which they are responsible.

Principle 7 – Customer Interests

PB-1.1.7 Specialised licensees and approved persons must pay due regard to the legitimate interests and information needs of their customers and communicate with them in a fair and transparent manner. Specialised licensees and approved persons, when dealing with customers who are entitled to rely on their advice or discretionary decisions, must take reasonable care to ensure the suitability of such advice or decisions.

Principle 8 – Relations with Regulators/Supervisors

PB-1.1.8 Specialised licensees and approved persons must act in an open and co-operative manner with the CBB and other regulatory/supervisory bodies whose authority they come under. They must take reasonable care to ensure that their activities comply with all applicable laws and regulations.

Principle 9 – Adequate Resources

PB-1.1.9 Specialised licensees must maintain adequate human, financial and other resources sufficient to run their business in an orderly manner.

Principle 10 – Management, Systems & Controls

PB-1.1.10 Specialised licensees 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. Specialised licensees' 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.