



USER'S GUIDE MODULE

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MODULE	UG: User's Guide
CHAPTER	UG-A: Introduction

UG-A.1 Purpose

Executive Summary

- UG-A.1.1 The Central Bank of Bahrain ('the CBB'), in its capacity as the regulatory and supervisory authority for Bahrain's financial markets, issues regulatory instruments that CBB licensees and other specified persons are legally obliged to comply with. These regulatory instruments are contained in the CBB Rulebook. Much of the Rulebook's substantive content was previously issued by the Bahrain Monetary Agency ('the BMA'), and was carried forward when the CBB replaced the BMA in September 2006.
- UG-A.1.2 The Rulebook is divided into 6 Volumes, covering different areas of financial services activity. These Volumes are being progressively issued. Volumes 1 and 2, covering conventional bank licensees and Islamic bank licensees respectively, were issued in July 2004 and January 2005; Volume 3, covering insurance licensees, was issued in April 2005; and Volume 4 (covering investment firm licensees), issued in April 2006. This Volume (Volume 6) was issued in phases, starting in April 2007. Finally, Volume 5 (covering specialised licensees) will be issued in 2007/08.
- UG-A.1.3 This User's Guide provides guidance on (i) the status and application of the Rulebook, with specific reference to Volume 6 (Capital Markets); (ii) the structure and design of the Rulebook; and (iii) its maintenance and version control.
- UG-A.1.4 Volume 6 (Capital Markets) covers the regulation and supervision of Bahrain's capital markets. When complete, it will include requirements dealing with (i) collective investment undertakings; (ii) the offering and listing of securities; (iii) the authorisation and supervision of exchanges (notably the Bahrain Stock Exchange); and (iv) capital market behaviour (such as insider dealing and market abuse, and the conduct of mergers and acquisitions of listed companies). Collectively, these requirements aim to ensure transparent and orderly markets, which help protect the rights of investors and shareholders, whilst enabling an attractive environment for those seeking to raise capital.
- UG-A.1.5 Capital market participants should note that the requirements contained in Volume 6 of the CBB Rulebook are additional to those contained in other Rulebook Volumes. Thus, market participants licensed as investment firms (for example) are required to comply with their license requirements contained in Volume 4, in addition to requirements contained in Volume 6 that apply to their capital markets activities.

MODULE	UG: User's Guide
CHAPTER	UG-A: Introduction

UG-A.1 Purpose (continued)

Legal Basis

UG-A.1.6

This Module contains the CBB's Directive regarding the User's Guide for Volume 6 of the CBB Rulebook, 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 CBB licensees (including their approved persons) that undertake relevant capital markets activity (as specified in the Scope of Application Chapters contained in each Volume 6 Module).

UG-A.1.7

The contents of this Module are also included in Regulations, to be issued by the CBB, by virtue of which they are applicable to non-CBB licensees that also undertake relevant capital markets activity (as specified in the Scope of Application Chapters contained in each Volume 6 Module).

UG-A.1.8

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

MODULE	UG: User's Guide
CHAPTER	UG-A: Introduction

UG-A.2 Module History

Evolution of Module

UG-A.2.1 This Module was first issued in April 2007, as part of the first phase of Volume 6 (Capital Markets) 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.

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

Module Ref.	Change Date	Description of Changes

UG-A.2.3 Guidance on the implementation and transition to Volume 6 (Capital Markets) is given in Module ES (Executive Summary).

MODULE	UG: User's Guide
CHAPTER	UG-1: Rulebook Status and Application

UG-1.1 Legal Basis

General

- UG-1.1.1 Volume 6 (Capital Markets) of the CBB Rulebook is issued by the CBB pursuant to the Central Bank of Bahrain and Financial Institutions Law 2006 ('the CBB Law'). The CBB Law provides for two formal rulemaking instruments: Regulations (made pursuant to Article 37) and Directives (made pursuant to Article 38). Other articles in the CBB Law also prescribe various specific requirements (for example, requirements relating to licensing (Articles 44 to 49), or the notification and approval of controllers of licensees (Articles 52 to 56)).
- UG-1.1.2 The Purpose Section of each Module specifies in all cases the rulemaking instrument(s) used to issue the content of the Module in question, and the legal basis underpinning the Module's requirements.
- UG-1.1.3 CBB licensees that are members of the Bahrain Stock Exchange are reminded that they are also subject to the membership and operating rules of that exchange. These rules are issued by the Bahrain Stock Exchange under powers given the Exchange under the Bahrain Stock Exchange Law, Decree No. 4 of 1987 (as amended by Decree No. 21 of 2002). These rules are additional to the requirements contained in the CBB Rulebook.

CBB's Rulemaking Instruments

- UG-1.1.4 Regulations are made pursuant to Article 37 of the CBB Law. These instruments have general application throughout the Kingdom and bind all persons ordinarily affected by Bahraini legislative measures (i.e. residents and/or Bahraini persons wherever situated, and non-residents wishing to undertake activities in Bahrain).
- UG-1.1.5 Because Regulations have wide general application, they are subject to two important safeguards: (i) the CBB is under a duty to consult with interested parties and to review and consider their comments; and (ii) the finalised Regulations only become effective after they are published in the Official Gazette.
- UG-1.1.6 Directives are made pursuant to Article 38 of the CBB Law. These instruments do not have general application in the Kingdom, but are rather addressed to specific CBB licensees (or categories of CBB licensees), approved persons or registered persons. Directives are binding on those to whom they are addressed.
- UG-1.1.7 Unlike Regulations, there is no duty on the CBB to either consult with addressees or publicise a Directive by publishing it in the Official Gazette (save that an addressee must obviously have actual or constructive notice of a Directive). However, as a matter of general policy, the CBB also consults on Rulebook content issued by way of a Directive.

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CHAPTER	UG-1: Rulebook Status and Application

UG-1.1 Legal Basis (continued)

CBB's Rulemaking Instruments (continued)

- UG-1.1.8 All of the content of the CBB Rulebook has the legal status of at least a Directive, issued pursuant to Article 38 of the CBB Law. Certain of the requirements contained in the CBB Rulebook may also have the status of a Regulation, in which case they are also separately issued pursuant to Article 37 of the CBB Law and published in the Official Gazette. Where this is the case, then the Rulebook cross-refers to the Regulation in question and specifies the requirements concerned.
- UG-1.1.9 In keeping with the nature of these regulatory instruments, Regulations are used to supplement the CBB Rulebook, either where explicitly required under the CBB Law, or where a particular requirement needs to have general applicability, in addition to being applied to CBB licensees, approved persons or registered persons.

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CHAPTER	UG-1: Rulebook Status and Application

UG-1.2 Status of Provisions

UG-1.2.1 The contents of the CBB Rulebook are categorised either as Rules or as Guidance. Rules have a binding effect. Guidance is not binding; rather, it is material that helps inform a particular Rule or set of Rules, or provides other general information.

UG-1.2.2 Where relevant, compliance with Guidance will generally lead the CBB to assess that the rule(s) to which the Guidance relates has been complied with. Conversely, failure to comply with Guidance will generally be viewed by the CBB as tending to suggest breach of a Rule.

UG-1.2.3 The categorisation of each Paragraph within the Rulebook is identified by its text format, as follows:

- Rules are in bold, font size 12. The Paragraph reference number is also highlighted in a coloured box.
- Guidance is in normal type, font size 11.

UG-1.2.4 Where there are differences of interpretation over the meaning of a Rule or Guidance, the CBB reserves the right to apply its own interpretation.

UG-1.2.5 Rule UG-1.2.4 does not prejudice the rights of an authorised person to make a judicial appeal, should it believe that the CBB is acting unreasonably or beyond its legal powers.

UG-1.2.6 All Rulebook content has the formal status of at least a Directive. Some Rulebook content may also have the status of Regulations. Rulebook content that is categorised as a Rule is therefore legally mandatory and must be complied with by those to whom the content is addressed.

UG-1.2.7 Breaches of Rules constitute breaches of the CBB Law. If a CBB licensee or person breaches a Rule to which they are subject, they are liable to enforcement action by the CBB and, in certain cases, criminal proceedings by the Office of the Public Prosecutor.

UG-1.2.8 The CBB's enforcement powers and processes are set out in Module EN.

MODULE	UG: User's Guide
CHAPTER	UG-1: Rulebook Status and Application

UG-1.3 Application

- UG-1.3.1 Volume 6 of the CBB Rulebook applies to a wide range of persons, i.e. all those involved as participants in Bahrain's capital markets, for instance by issuing or trading securities, or operating a regulated exchange or collective investment undertaking. As a consequence, much of the content of Volume 6, in addition to having the status of a Directive, is also issued by way of Regulation.
- UG-1.3.2 The precise scope of application of Volume 6 is specified in the Scope of Application Chapter contained in each Module (except those listed in the 'Introduction' part of Volume 6): these specify the particular activities (and associated persons) to which the requirements in the Module concerned apply. In addition, each Rule (or Section containing a series of Rules) is drafted such that its application is clearly highlighted for the user. Finally, each Module, in its Purpose Section, specifies in all cases the rulemaking instrument(s) used to issue the content of the Module in question, and the legal basis underpinning the Module's requirements.

MODULE	UG: User's Guide
CHAPTER	UG-1: Rulebook Status and Application

UG-1.4 Effective Date

UG-1.4.1 Volume 6 (Capital Markets) of the CBB Rulebook was first issued in April 2007. Its contents have immediate effect, subject to any specific transition arrangements that may be specified.

UG-1.4.2 Module ES (Executive Summary) contains details of the implementation and transition arrangements for Volume 6 (Capital Markets).

MODULE	UG: User's Guide
CHAPTER	UG-2: Rulebook Structure and Format

UG-2.1 Rulebook Structure

Rulebook Volumes

UG-2.1.1 The Rulebook is divided into 6 Volumes, covering different areas of financial services activity, as follows:

Volume 1	Conventional Banks
Volume 2	Islamic Banks
Volume 3	Insurance
Volume 4	Investment Business
Volume 5	Specialised Activities
Volume 6	Capital Markets

UG-2.1.2 Volume 5 (Specialised Activities), covers money changers; finance leasing companies; consumer finance companies; mono-line credit card companies; representative offices; and providers of ancillary services to the financial sector.

Rulebook Contents (Overview)

UG-2.1.3 Except for Volumes 5 and 6, the basic structure of each Rulebook is the same. Each Volume starts with a contents page and an introduction containing a User's Guide and Executive Summary. Subsequent material is organised underneath the following headings:

- High-level Standards
- Business Standards
- Reporting Requirements
- Enforcement and Redress; and, where appropriate,
- Sector Guides

UG-2.1.4 Volume 5 is organised by the Category of specialised firm concerned, whilst Volume 6 by subject area (authorised exchanges; the offering of securities etc).

UG-2.1.5 The material in Volumes 1-6 is contained in Modules, each covering a specific area of requirements (e.g. capital). In turn, each Module is divided into Chapters, Sections and Paragraphs, as detailed below.

UG-2.1.6 Each Volume has its own appendix Volume containing relevant reporting and authorisation forms; a glossary; and any supplementary information. In all cases, the main Volume is called 'Part A' and the appendix Volume is called 'Part B'.

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UG-2.2 Volume Structure

Modules

UG-2.2.1 Rulebook Volumes are subdivided into Modules, arranged in groups according to their subject matter, underneath headings (such as those listed in Paragraph UG-2.1.3 above).

UG-2.2.2 Each Module in a Volume is referenced using a two or three-letter code, which is usually a contraction or abbreviation of its title. These codes are used for cross-referencing within the text.

Chapters

UG-2.2.3 Each Module consists of Chapters, categorised into two types:

- Standard introductory Chapters (referenced with a letter: e.g. UG-A); and
- Chapters containing the substantive content of the Module (referenced with a number: e.g. CA-1, ML-2, etc.)

UG-2.2.4 The introductory Chapters summarise the purpose of the Module, its history (in terms of changes made to its contents) and, where relevant, lists previously issued circulars and regulations that were replaced by the Rulebook Module. A separate introductory Chapter also prescribes the scope of application of the Module's requirements.

Sections and Paragraphs

UG-2.2.5 Chapters are further sub-divided into Sections: these extend the Chapter numbering (e.g. FC-1.1, FC-1.2, FC-1.3 etc). In turn, Sections are sub-divided into Paragraphs; these extend the Chapter and Section numbering (e.g. FC-1.1.1, FC-1.1.2, FC-1.1.3 etc.). Where appropriate, sub-Section headings may be used, to guide the reader through a Section; sub-Section headings are italicised and unnumbered, and act purely as an indicator (without limitation) as to the contents of the Paragraphs that follow.

Table of Contents

UG-2.2.6 Each Volume's contents page lists all the Modules contained within it (Part A) and the information contained in the relevant appendix Volume (Part B).

UG-2.2.7 The contents page of each Module lists the Chapters and Sections it contains, and the latest version date of each Section in issue.

MODULE	UG: User's Guide
CHAPTER	UG-2: Rulebook Structure and Format

UG-2.3 Format and Page Layout

Headers

UG-2.3.1 The top of each page in the Rulebook identifies the Volume, Module and Chapter in question.

Footers

UG-2.3.2 The bottom of each page in the Rulebook (on the left hand side) identifies the Module in question, its Section and page number. Page numbering starts afresh for each Section: the total number of pages in each Section is shown as well as the individual page number. The bottom right hand side shows an end-calendar quarter issue date. The contents page for each Module, and each Section in a Module, are each given their own issue date. In addition, the Module contents page lists the latest issue date for each Section in that Module. The contents page thus acts as a summary checklist of the current issue date in force for each Section. Further explanation is provided in Section UG-3.1 below.

Defined terms

UG-2.3.3 Defined terms used in the Rulebook are underlined. Each Volume has its own glossary listing defined terms and giving their meaning. Definitions of terms used apply only to the Volume in question. It is possible for the same term to be used in a different Volume with a different meaning.

Cross-references

UG-2.3.4 Any cross-references given in a text state the Module code, followed (where appropriate) by the numbering convention for any particular Chapter, Section or Paragraph being referred to. For example, the cross-reference FC-1.2.3 refers to the third Paragraph in the second Section of the first Chapter of the Financial Crime Module. Many references will be quite general, referring simply to a particular Module, Chapter or Section, rather than a specific Paragraph.

Text format

UG-2.3.5 Each Paragraph is assigned a complete reference to the Module, Chapter, and Section, as well as its own Paragraph number, as explained in Paragraph UG-2.3.4 above. The format of the Paragraph reference and text indicates its status as either a Rule or Guidance, as explained in Paragraph UG-1.2.4 above.

UG-2.3.6 When cross-referring to specific Paragraphs, and it is important to make clear the status of the Paragraph in question as a Rule or Guidance, then the words 'Rule' or 'Guidance' may be used instead of 'Paragraph', followed by the reference number (e.g. 'As required by Rule FC-1.1.1, licensees must...').

MODULE	UG: User's Guide
CHAPTER	UG-3: Rulebook Maintenance and Access

UG-3.1 Rulebook Maintenance

Quarterly Updates

- UG-3.1.1 If changes to the Rulebook are required, these will usually only be made every quarter, in early January, April, July and October (the only exceptions being when changes are urgently required). This way, users are generally aware when to expect any changes. Not every quarter will necessarily see changes being made, however.
- UG-3.1.2 When changes are made to a Module, the amended Sections are given a new version date, in the bottom right-hand page. The contents page for each amended Module is also updated: the table of contents is changed to show the new version date for each amended Section (in the 'Date Last Changed' column), and the contents page itself is also given its own new version date in the bottom right-hand corner. The Module contents pages thus act as a checklist for hard-copy users to verify the current version dates for each Section in that Module.
- UG-3.1.3 A summary of any changes made to a Module is included in the Module History Section of each Module. The table summarises the nature of the change made, the date of the change, and the Module components and relevant pages affected. The Module History can thus be used to identify which pages were updated within individual Sections.
- UG-3.1.4 Hard-copy users of the CBB Rulebook can check that they have the latest copy of each Module's contents pages, by referring to the overall table of contents for each Volume. The Volume table of contents lists the date each Module was last changed; users can use this table to check the date showing in the bottom right-hand corner of each Module's contents page.
- UG-3.1.5 The website version of the Rulebook acts at all times as the definitive version of the Rulebook. Any changes are automatically posted to the CBB website, together with a summary of those changes. Licensees are in addition e-mailed every quarter, to notify them of any changes (if any). Hard-copy users are invited to print off the updated pages from the website to incorporate in their Rulebook in order to keep it current.

Changes to Numbering

- UG-3.1.6 In order to limit the knock-on impact of inserting or deleting text on the numbering of text that follows the change, the following conventions apply:
- (a) Where a new Paragraph is to be included in a Section, such that it would impact the numbering of existing text that would follow it, the Paragraph retains the numbering of the existing Paragraph immediately preceding it, but with the addition of an "A"; a second inserted Paragraph that follows immediately afterwards would be numbered with a "B", and so on.

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CHAPTER	UG-3: Rulebook Maintenance and Access

UG-3.1 Rulebook Maintenance

Changes to Numbering (continued)

- UG-3.1.6
- (b) For example, if a new Paragraph needs to be inserted after UG-3.1.6, it would be numbered UG-3.1.6A; a second new Paragraph would be numbered UG-3.1.6B, and so on. This convention avoids the need for renumbering existing text that follows an insertion. The same principle is applied where a new Section or a new Chapter needs to be inserted: for example, UG-3.1A (for a new Section), and UG-3A (for a new Chapter)
 - (c) Where a Paragraph is deleted, then the numbering of the old Paragraph is retained, and the following inserted in square brackets: 'This Paragraph was deleted in [April 2007].' (The date given being the actual calendar quarter date of the deletion.) The same principle is applied with respect to Sections and Chapters.
- UG-3.1.7 Where many such changes have built up over time, then the CBB may reissue the whole Section, Paragraph, Chapter or even Module concerned, consolidating all these changes.

MODULE	UG: User's Guide
CHAPTER	UG-3: Rulebook Maintenance and Access

UG-3.2 Rulebook Access

Availability

- UG-3.2.1 The Rulebook is available on the CBB website, on CD-ROM and in hard copy. Order forms for CD-ROMs and hard copies are available on the CBB website or from the Licensing & Policy Directorate of the CBB; a copy is also attached to this Section. Contact details are as follows:

Rulebook Section
Licensing & Policy Directorate
Central Bank of Bahrain
P.O. Box 27
Manama
Kingdom of Bahrain

Tel: +973-17 547 413
Fax: +973-17 530 228
E-mail: rulebook@cbb.gov.bh
Web: www.cbb.gov.bh

Queries

- UG-3.2.2 Questions regarding the administration of the Rulebook (e.g. ordering additional copies, website availability, the updating of material etc.) should be addressed to the Rulebook Section of the Licensing & Policy Directorate (see contact details in Paragraph UG-3.2.1). Questions regarding interpretation of the policy and requirements contained in the Rulebook should be addressed to the licensee's regular supervisory point of contact within the CBB.

CBB Rulebook Order Form

INSTRUCTIONS

Please complete all relevant boxes, taking particular care to provide full contact and address details. The completed form should be sent (accompanied with the appropriate payment) to:

Central Bank of Bahrain
(Rulebook Section, Licensing & Policy Directorate)
P.O. Box 27
Manama
Kingdom of Bahrain

For enquiries, please contact:
Phone: +973 – 17 547 413
E-mail: rulebook@cbb.gov.bh

ORDER REQUIREMENT

ORDER REQUIREMENT			
Rulebook Volume Number	Hard-Copy ¹ : number required (at BD 110 each)	CD-ROM ² : number required (at BD 5 each)	Cost:
1 (Parts A & B) Conventional Banks			
2 (Parts A & B) Islamic Banks			
3 (Parts A & B) Insurance			
4 (Parts A & B) Investment Business			
6 (Parts A & B) Capital Markets	(Orders may be taken now but will only be fulfilled when all of Volume 6 has been issued; this is expected to be towards the end of 2007.)		
POSTAGE	The above prices include postage for delivery within the Kingdom of Bahrain. Postage for international orders will be charged at cost: please contact the CBB (see above) for details of rates and delivery options.		
1: Hard copy subscribers are provided the latest version of the Rulebook Volume(s) ordered, which they can then keep up to date by printing off new or amended pages from the CBB website (www.cbb.gov.bh). 2: CD-ROM subscribers are sent the latest available version of the complete Rulebook (i.e. the CD-ROM contains all Volumes that have been issued).			Total Cost:

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Institution (if applicable)	
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Contact e-mail / telephone / fax	<u>E-mail:</u> <u>Telephone:</u> <u>Fax:</u>
Please remember to enclose your payment with the order	Payment should be by cheque drawn on a Bahraini-licensed bank, payable in Bahrain Dinars. Cheques should be made out to "Central Bank of Bahrain". Persons ordering from outside Bahrain should contact the CBB (see above) for postage rates and payment options.