



# FIT AND PROPER REQUIREMENTS

April 2025

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## Frequently Asked Questions (FAQ) Version 1

These FAQs are meant to provide guidance to the industry and do not replace the text of the Directive issued under the title “Fit and Proper Requirements Module (Module FP)” which is applicable to all CBB licensees.

## Qualifications and Core Competencies

### 1. *What outcomes are expected from the new fit and proper regime with regards to the internal competency frameworks that licensees are required to develop?*

The CBB would require licensees to ensure that the standards help them obtain the best outcomes for the industry and also for those aspiring to join the industry. Licensees with different business models, varying complexities and sizes would not necessarily benefit from a one-size-fits-all approach to competency. The competency standards should consider the needs of the individual licensees, the structure of the organisation and level of authorities, extent of digitalization, nature of the job role and also the size, complexity and nature of business.

The introduction of the new approach embedded in the new Module FP was also designed to ensure that the licensee's board of directors, and more specifically, the CEO remain accountable for suitability of senior managers.

The CBB also encourages the industry to develop sector-wide guidance in line with best practices in successful jurisdictions. Such an initiative will help raise the level of standards and talent in Bahrain. Persons working within the financial services sector or those aspiring to join the sector will then have good visibility of the academic and or professional qualifications, skills, knowledge and expertise that they need to target in order to play a role within financial services. Additionally, this will help personal development and career path.

### 2. *We understand that the competency standards referred to in Appendix FP-1 are for illustration purposes and licensees can develop their own competency standards. Can CBB confirm whether our understanding is correct? It is unclear as to what happens if the internally developed standards conflict with the CBB's expectations.*

The CBB expects the licensees to develop their own competency standards using best industry practices and also by reference to the guidance in the illustrations provided. With regards to the illustrative competencies, a one-size-fits-all standard is not likely to help firms of varying size/business profile.

Where the CBB believes that it does not meet its expectations, the licensee should be in a position to explain why it has adopted the standard. If the CBB is not satisfied, then it will request the licensee to address the gap.

- 3. *Can the CBB clarify the positions referenced by stating “all management positions whether senior or otherwise” in FP-1.3.7, as the proposed Module FP primarily discusses Board directors and senior management functions.***

Since the persons covered in this Module are board directors and senior management, the paragraph is only guidance and not a rule. The CBB encourages licensees to ensure that the standards for competency for all management positions are subjected to a similar rigor.

- 4. *FP-1.1.1(e) refers to minimum competency standards. Does this relate to the job description?***

While the job descriptions typically describe the expectations in a particular role from a day-to-day operations perspective, the qualifications/certification requirements are not part of job descriptions. Competency standards must address the criteria and conditions for all senior management functions identified by the licensee covering all aspects specified in FP-1.3.8.

#### ***Organisation structure and identification of senior management functions***

- 5. *If the licensees are permitted to define their own senior management functions, will it not result in varying interpretations.***

The criteria under FP-1.2.2 (a) and (b) should be viewed substantially in light of the “authority” or the “powers” delegated to the person for a significant component of the licensee’s business or operations. Materiality based on the role, authority structure, nature and range of business activities/lines. A position with board delegated authority and the ability to oversee revenue generation of 20% or more may be considered significant. Persons falling under FP-1.2.2 (c) are clearly identifiable. For small organisations, however, there may only be very few “senior managers” in true spirit.

- 6. *Who is “a person who enforces policies and implements strategies approved by the board of the licensee” as per the guidance in Paragraph FP-1.2.2 (b)***

These are senior managers of an organisation to whom the board has entrusted the achievement of organisational KPIs and goals. This is a residual category of senior management after considering FP-1.2.2 (a) covering business chiefs and FP-1.2.2 (c) which cover ‘control’ functions.

For example, if an organisation is significantly impacted by climate change and the Board has designed a person at a senior management level to address climate risks, such a person is not addressed by FP-1.2.2 (a) or FP-1.2.2 (c). Therefore, such examples may not be common, but some licensees may have senior management level personnel dealing with activities that neither fall under FP-1.2.2 (a) or FP-1.2.2 (c).

**7. *Are the licensees required to submit the organisation structure to the CBB for review and prior approval in order to comply with FP-1.1.1?***

No, the CBB expects the licensee's CEO to be responsible for the design and the implementation of the structure in consultation with the board of directors.

**8. *What is the status of members of the Shari'a Supervisory Board, Head of Shari'a Compliance etc.***

They do not require CBB prior approval.

### ***Assessment of fit and proper***

**9. *If the CBB may kindly clarify the nature of the assessments required prior to appointing senior managers.***

Module FP sets the propriety (integrity) standards and they are the minimum. However, with respect the "fitness" or competencies, a one size fits all standard is not likely to help firms of varying size/business profile and, accordingly, the CBB expects the licensees to develop their own using best industry practices and also by reference to the guidance in the illustrations provided in Appendix FP-1. The licensees should establish formal processes for recruitment search, adverts, screening and due diligence of the potential candidates.

**10. *What should a "comprehensive assessment" include at a minimum and what methodology should be applied?***

The fit and proper criteria cover three main areas:

- **Honesty, integrity, and reputation** (e.g., criminal records, past regulatory breaches).
- **Financial soundness** (e.g., bankruptcy history, financial management issues)
- **Competence** (e.g., qualifications, experience, skills).

Assessments should cover all aspects covered by the criteria related to Fit and Proper. Reference checks and discussions with past employers, detailed reviews of CVs, structured interviews, certificates and proof of credentials, reputation among peer group, profile of past employer/s, police clearances where appropriate, credit reports, LinkedIn profile checks, etc. all contribute to the overall assessment. While evidence might be needed for some aspects, some could be based on self-declarations. Care should be taken in deciding on the methods of checks and therefore the licensees should establish policies and processes as regards sourcing of the candidates, methods for screening, due diligence checks and so on.

**11. *It can be particularly difficult for licensees to conduct thorough reference checks, especially when it comes to foreign institutions and other financial institutions in Bahrain.***

This is a routine requirement in many jurisdictions and the licensees could ask the applicant to help with the reference checks from his/her previous employer. If the other financial institution is not cooperative, the applicant may suggest alternative means, such as, a discussion with one or more senior level persons at the past employer.

**12. *How should 'financial soundness' of the candidates be assessed in light of the three factors highlighted in the Module?***

Licensees should review the Bahrain Credit Bureau reports for Bahrain and, in the case of expatriates, credit reports where available and if this cannot be obtained, depending on the appetite of the licensee, it may consider self-declaration and other reference checks.

**13. *A newly appointed CFO in a bank has a history of poor personal credit management but no formal bankruptcy. Can they be approved?***

It depends. The CBB will evaluate whether the individual's financial mismanagement has affected others and whether it impacts their ability to manage the institution's financial risks. Please also refer to the fit and proper criteria in FP-1.3.

### **Ongoing fit and proper assessments**

- 14. Regarding the thorough due diligence required, is it expected to conduct a full due diligence assessment annually, or would an abridged check suffice? Is it necessary that a licensee obtains the information on the fit and proper criteria stated in FP-1.3.3, FP-1.3.4, FP-1.3.5 for ongoing annual assessments?**

While the due diligence and evidence gathering at the recruitment stages is important, particularly for assessing honesty, integrity and reputation and financial soundness, “propriety”, ongoing assessments will take into account information available with assessors regarding the person. Complaints and whistleblowing mechanisms may also reveal any material concerns. With respect to “fitness” or competencies, they are assessed based on the person’s performance on the job itself as against the person’s Statement of Responsibility.

### **Statement of Responsibility**

- 15. The definition of ‘Statement of Responsibilities (SOR)’ as per the article may overlap with the contents of a ‘job description’. Will the CBB treat the SOR as a different document?**

As stated in the rule, the SOR must outline function related responsibilities, reporting responsibilities, oversight responsibilities, delegated authorities and personal accountability and must be signed by the person within one month of appointment. The SOR can be the job description if it meets the criteria in the stated rule. A statement of responsibility goes beyond a job description in that it should specify the specific reporting and measurable performance criteria and or indicators that can be used to assess the effectiveness on an annual basis.

### **Appointment of senior managers**

- 16. Do the licensees need to notify the CBB for appointments, or send CVs for persons not requiring prior approval of the CBB?**

No notification is required for appointments to senior management functions that do not require CBB approvals. The IIS, however, needs to be updated.



**17. *Is approval required for the position of Deputy Money Laundering Reporting Officer (DMLRO) for insurance brokers, in accordance with the Fit and Proper Module?***

Both the Fit and Proper Module (Module FP) and the Financial Crime Module (Module FC) apply. Only if either of these specify the CBB approval requirement arises.

**18. *The new module explicitly states in Appendix FP-2 that applications for the Money Laundering Reporting Officer (MLRO) must be submitted to the CBB. However, it lacks clarity regarding applications for the DMLRO. It is important to note that the existing requirements under FC-4.1.4 applicable to banks mandate that DMLRO applications receive CBB approval prior to appointments.***

For licenses that has requirements to obtain CBB approval for DMLRO under the FC Module requirements, such requirements will apply until any changes are made to those Module.

**19. *Do we have to deregister one of the approved person which is not part of the defined senior managers listed in Appendix FP-2***

If the person is currently an approved person but does not fall under the senior managers listed in Appendix FP-2 to be approved by the CBB, no action is required by the licensee at the moment. Appendix FP-2 applies to any new appointments effective 1st April 2025 and does not have a retrospective effect.

### ***Exemptions and waivers***

**20. *What is the process for requesting waivers, such as residency requirements for approved individuals or for lacking in certain qualifications. This is especially relevant for international firms and for those small operations in Bahrain.***

Waivers or exemptions should not be a routine and an accepted norm. The licensee may discuss any specific issues with CBB supervisory points of contact and ensure that any such arrangement meets with the outcomes expected by the CBB.

## **Training plans**

**21. *Can the CBB offer more specific guidance on the types and content of training that would be considered relevant and effective.***

The training plan should address the individual skills development and personal development needs. As specified in FP-1.4.4, the upskilling can be through mix of training methods including on-the-job training, in-house training, seminars, conferences, further qualifications, product presentations, computer-based training and one-to-one tuition may also be considered. Furthermore, given the broad range of issues that boards must address in their stewardship role, training plans should ensure they are kept abreast of developments relevant to the industry, associated risks, compliance obligations and so on.

**22. *Can personal development plan meet the requirement relating to annual training plans?***

While personal development plans are for each individual, the training plan is a live document to address the individual skills development and personal development needs and are at an enterprise-wide level.

**23. *We suggest that the CBB incorporate a provision in the regulations regarding internal programs aimed at developing and preparing specific individuals for Senior Management positions.***

While Module FP is focused on senior management positions, where the licensee has taken a holistic approach to developing competency criteria for all job roles regardless of job level (i.e. at all levels of the organisation for every job cluster/job family), there would be greater transparency across the organisation and this will allow individuals to prepare personal developments plans if they aspire to take senior positions within the licensee. Therefore, licensees should ensure that all positions (regardless of whether the job roles are senior or otherwise) are covered under their competency framework. This will help ensure that those proposed for heading senior management functions meet the competency requirements.



### *Continuing professional development*

#### *24. Is there a minimum hourly requirement for Board members?*

No, however, all persons covered within the scope of the Module, i.e. board directors and senior management are subject to the CPD requirements. This should be tailored to meet the requirements of individual board members for each licensee and it will largely depend on the level maturity of each board, board composition, presence or absence of people with the depth of knowledge within the board that may be relevant to the licensee and so on.

### *Interim Arrangements*

#### *25. What are the interim requirements if a senior management role becomes vacant?*

Licensees must appoint a **suitably qualified interim replacement** and ensure the vacant position is permanently filled within **180 days**, unless an exception is granted by the CBB.

### *Shared responsibilities and dual-hatting*

#### *26. Can a senior manager undertake multiple functions (dual-hatting)?*

Dual-hatting within the licensee will be possible if there is no dilution of the responsibilities, scope of authority and there are no conflicts of interest. This is particularly relevant to smaller licensees and licensees with technology-based business models. For larger licensees, dual hatting may be relevant under certain circumstances, example:

- the licensee is in its initial period or years of operations and the responsibilities of certain functions can be shared with other functions,
- a position has fallen vacant and there is an immediate need to take over the related responsibilities;
- there is need to have a dual hatting arrangements given the target market/customers or the geographical reach of the business etc.

Dual-hatting within a group or cross-border branches may be possible if the conditions under FP-1.5 are met. The Board and CEO or the head office/regional office should consider the circumstances and allow shared responsibilities while ensuring compliance with the rules.

**27. Can a senior manager of a licensee be resident outside Bahrain?**

A senior manager can be resident outside Bahrain if the licensee can demonstrate that it meets the conditions described in the rules under section FP-1.5 and it has ensured that adequate number of senior manager/(s), proportionate to their nature, size and complexity, is/are resident in Bahrain for managing day-to-day operations. The licensee should take reasonable steps to ensure that any business he/she manages is operating in compliance with the CBB's regulatory framework. The licensee should also demonstrate that oversight over activity of the senior manager resident overseas is maintained.

**28. Can a senior manager of a licensee act as a director of a special purpose vehicle relevant to the structuring of the offerings, for example structured products, mutual fund?**

A senior manager can be a director of the special purpose vehicle and such activity should not be in conflict with his senior manager role.

### Notifications

**29. With reference to “FP-3.1.3 Licensees must notify the CBB when a board director or person holding senior management functions has resigned, been suspended or dismissed, or when disciplinary action has been taken against such person, or when a member of senior management is transferred to another function within the licensee, or else to another group entity. Such notification must be made within 5 working days of the acceptance of the resignation letter, decision of suspension or dismissal, transfer etc.” Please clarify what types of disciplinary actions require notifying the CBB.**

The disciplinary actions should be defined under the policies of the bank, its code of conduct and code of ethics, but should also relate to any violations of the propriety criteria under the Module FP (see FP-2.1).

**30. We would appreciate guidance on whether there is a recurring (e.g., annual) reporting obligation for licensees with respect to the ongoing assessment of individuals' fitness and propriety. Given the emphasis on ensuring that approved persons and controlled functions remain fit and proper, we would like to understand:**

**1. Whether licensees are expected to proactively submit periodic confirmations or reports affirming continued compliance;**

Ongoing assessments are expected to be conducted by the licensee to maintain competencies as required by the rules. There is no reporting to the CBB except for certain notifications specified in Section FP-3.1.

**2. Or if the CBB will reach out on a recurring basis for updates or re-confirmation;**

The CBB onsite examinations or supervisory teams may reach out if necessary.

**3. Or whether the requirement to reassess and report is trigger-based, i.e., applicable only in case of material incidents, concerns, or changes in circumstances.**

While annual assessments are required, the licensee's policy should establish the triggers where appropriate.

### **Transition to new regulations**

**31. Will individuals who currently hold approved person or controlled function status retain their regulatory approval, or will all such approvals be rescinded upon the implementation of this Module?**

No actions are needed in respect of existing approved persons who are not listed in the new Module as those requiring CBB approval.

**32. Can the CBB kindly clarify whether existing Board Directors/persons in senior management functions would be grandfathered in relation to certain Module FP requirements?**

Given that the CBB has not set minimum requirements for competencies in the new Module, the CBB anticipates that the internally developed competency frameworks will address any concerns. However, annual assessments of competencies within the context

of ability to fulfill the responsibilities of the role remain relevant and the CBB will review the licensees' measures to ensure suitability.

**33. *For existing employees, should a licensee maintain Statement of Responsibilities ("SOR")?***

Statements of responsibilities should be developed for existing senior managers.

**34. *Will there be any modifications to the filing requirements for Form 3, in light of the proposed changes to the approved persons section in the Licensing Requirements Module (LR Module)?***

Form 3 on the CBB website should be used until it is revised to align it fully with the new Module.

**35. *With reference to branches of foreign banks approval is only required for persons listed in Appendix FP-2 Currently we have roles that had been earlier categorized as "approved persons", such as Chief Risk and Credit Risk Officer, CTOO and Heads of HR and Internal Audit, etc. We understand that these roles, effective 1 October will no longer require CBB's approval.***

Effective 1st April 2025, positions other than those listed under Appendix FP-2, will not require CBB approval. No approval is required for positions not falling within Appendix specified. The time under the effective date of 1st October applies to other requirements, particularly, the establishment of competency standards, the Statements of Responsibilities, the assessment processes etc.