



# **LICENSING REQUIREMENTS MODULE**



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MODULE	LR: Licensing Requirements
CHAPTER	LR-A: Introduction

## LR-A.1 Purpose

### *Executive Summary*

- LR-A.1.1 The Licensing Requirements Module sets out the Central Bank of Bahrain's ('CBB's') approach to licensing providers of regulated conventional banking services in the Kingdom of Bahrain.

### *Legal Basis*

#### LR-A.1.2

This Module contains the CBB's Regulations, Resolutions and Directive (as amended from time to time) relating to Licensing Requirements and is issued under the powers available to the CBB under Articles 37 to 42, 44 to 48 and 180 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It also includes the requirements contained in Resolution No (1) of 2007 (as amended from time to time) with respect to determining fees categories due for licensees and services provided by the CBB. The Module also contains requirements under Regulation No (1) of 2007 pertaining to the CBB's regulated services issued under Article 39 of the CBB Law and those conditions of granting a license for the provision of regulated services as prescribed under Resolution No.(43) of 2011 and issued under the powers available to the CBB under Article 44(c). The Module contains requirements under Resolution No.(16) for the year 2012 including the prohibition of marketing financial services pursuant to Article 42 of the CBB Law. This Module contains the prior approval requirements for approved persons under Resolution No (23) of 2015. The Directive and Resolutions in this Module are applicable to all conventional bank licensees (including their approved persons).

- LR-A.1.2A For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.
- LR-A.1.3 Persons wishing to undertake regulated banking services are required to be licensed by the CBB as a conventional bank licensee. Regulated banking services consist of two determinant activities undertaken in combination – deposit-taking and providing credit. In addition, various supplementary regulated activities may also be undertaken. These activities are defined in Rule LR-1.3.1.



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## **LR-A.1 Purpose (continued)**

### **LR-A.1.4**

In other words, persons wishing to undertake deposit-taking must also undertake the activity of providing credit. In addition, they may undertake any of the other activities falling within the definition of regulated banking services. Deposit-taking may not be undertaken on its own, without the activity of providing credit also being undertaken. Persons wishing to provide credit without undertaking deposit-taking may qualify as a finance company, a Category of specialised licensee (see separate regulations regarding these: they will fall under Volume 5 of the CBB Rulebook, when issued in the future).

### *License Categories*

- LR-A.1.5 Conventional bank licensees are divided into two sub-categories: conventional retail banks and conventional wholesale banks. Certain specific regulatory requirements may differ between these two sub-categories, where appropriate to address their different risk profiles. (See Section LR-1.2.)
- LR-A.1.6 Conventional retail banks may undertake transactions in any currency, with both Bahraini residents and non-residents. To qualify as a conventional retail bank, the activity of providing credit must account for a significant portion of the institution's business (defined, broadly, as accounting for over 20% of an institution's assets – See Paragraphs LR-1.2.4-8).
- LR-A.1.7 Conventional wholesale banks may also undertake transactions without restriction, when dealing with the Government of Bahrain and its agencies; CBB bank licensees; and non-residents. However, they may only undertake transactions denominated in Bahraini Dinar and/or with a resident of the Kingdom of Bahrain, if these are wholesale in nature. Wholesale transactions are defined in terms of transaction size (broadly, BD 7 million or more for a credit or deposit transaction, and US\$ 100,000 or more for an investment transaction – See Paragraphs LR-1.2.9-26).
- LR-A.1.8 Collectively, licensed providers of regulated banking services are called conventional bank licensees. Bahrain-incorporated conventional bank licensees are called Bahraini conventional bank licensees. Conventional bank licensees that are incorporated in an overseas jurisdiction and operate via a branch presence in the Kingdom of Bahrain are called branches of foreign conventional bank licensees. The same naming convention applies to the two sub-categories of conventional bank license: thus, Bahraini conventional retail banks and Bahraini conventional wholesale banks are those incorporated in Bahrain, whilst retail branches of foreign banks and wholesale branches of foreign banks are those incorporated in an overseas jurisdiction and operating in Bahrain via a branch presence.
- LR-A.1.9 Conventional bank licensees may not hold themselves out as an Islamic bank. They may nonetheless enter into Shari'a compliant transactions, subject to certain restrictions outlined in Section LR-1.4.



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## **LR-A.1 Purpose (continued)**

### *Licensing Conditions*

LR-A.1.10 Conventional bank licensees are subject to 8 licensing conditions, mostly specified at a high-level in Module LR, and further expanded in underlying subject Modules (such as Module CA). These licensing conditions are broadly equivalent to the standards applied in other Volumes of the CBB Rulebook, to other license categories, and are consistent with international good practice, such as relevant Basel Committee standards.

#### **LR-A.1.11**

The requirements contained in Chapter LR-2 represent the minimum conditions that have to be met in each case, both at the point of licensing and on an on-going basis thereafter, in order for licensed status to be retained.

### *Information Requirements and Processes*

LR-A.1.12 Chapter LR-3 specifies the processes and information requirements that have to be followed for applicants seeking a conventional bank license, as well as existing licensees seeking to vary the scope of their license, by adding new regulated activities. It also covers the voluntary surrender of a license, or its cancellation by the CBB.

### *Representative Offices, Finance Companies and Ancillary Service Providers*

LR-A.1.13 Representative offices of conventional banks, and providers of ancillary services in the financial sector are not covered in Volume 1 (Conventional Banks) of the Rulebook. Requirements covering representative offices (for all financial services firms) and providers of ancillary services to the financial sector are included in Volume 5.

#### **LR-A.1.14**

Representative offices of conventional banks are subject to requirements contained in Volume 5 (Specialised Licensees), common Modules and specific Modules for representative offices. Until such time as all parts of Volume 5 (Specialised Licensees) of the CBB Rulebook is issued, providers of ancillary services to the financial sector remain subject to the requirements contained in the CBB's "Standard Conditions and Licensing Criteria".

LR-A.1.15 [This paragraph was merged with paragraph LR-A.1.13 above in October 2007]

#### **LR-A.1.16**

[This paragraph was merged with paragraph LR-A.1.14 above in October 2007]

LR-A.1.17 This paragraph was deleted in October 2007.



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## **LR-A.2 Module History**

### *Evolution of Module*

- LR-A.2.1 This Module (Module LR – “Licensing and Authorisation Requirements”) was first issued in July 2004, as part of the initial release of Volume 1 of the CBB Rulebook. It was subsequently reissued in full in July 2006 (and renamed “Licensing Requirements”).
- LR-A.2.2 The reissued Module was one of several Modules modified to reflect the introduction of the CBB’s new integrated license framework. Module LR was amended to reflect the new conventional bank licenses introduced by the framework, and to more closely align its presentation with that found in other CBB Rulebook volumes.
- LR-A.2.3 The reissued Module is dated July 2006. 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.
- LR-A.2.3A When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 1 was updated in October 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.



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

LR-A.2.4 A list of recent changes made to this Module is provided below:

Module Reference	Change Date	Description of Changes
LR-6	01/2005	New guidance on record-keeping.
Whole Module	07/2006	Whole Module reissued to reflect integrated license framework: new license categories and updated licensing conditions introduced.
LR-A.1.2	10/2007	New Rule LR-A.1.2 introduced, categorising this Module as a Directive.
LR-1.4	10/2007	New section added on Shari'a Compliant Transactions
LR-A.2.8	10/2007	Changes to provision of information requirements as result of CBB Law
LR-3	10/2007	Revised requirements due to new CBB Law
LR-4	10/2007	New Chapter LR-4 on application and license fees (incorporating material on fees previously contained in Module GR).
LR-2.5.10	04/2008	Minimum daily cash reserve balance with the CBB increased from 5% to 7%.
LR-1.2.16	04/2008	Lower threshold of \$100,000 for investment business transactions for wholesale banks
LR-2.5.10	07/2009	Minimum daily cash reserve balance with the CBB brought back to 5% from 7%.
LR	10/2010	Various minor amendments to ensure consistency in formatting of CBB Rulebook.
LR-A.1.2	10/2010	Revised legal basis.
LR-1A	10/2010	New Chapter on Approved Persons moved from Section HC-1.2 and from Paragraphs in Section HC-1.5.
LR-3.1.12A	10/2010	Added new paragraph, requiring capital to be injected prior to license being issued.
LR-3.1.15	10/2010	Additional details pertaining to information required, within 6 months of a license being issued.
LR-3.1.15A	10/2010	Transition rule added to comply with new requirement under Subparagraph HC-3.1.15(j).
LR-4.2.13	10/2010	Amendment to guidance.
LR	01/2011	Various minor amendments to ensure consistency in formatting of CBB Rulebook.
LR-A.1.2	01/2011	Clarified legal basis.
LR-3.1.5 and 3.1.5A	01/2011	Clarified the use of letters of guarantee as part of the licensing process.
LR-4.2.9A	01/2011	Added the requirement for annual fees for SPV's to be in line with the requirements of Resolution No (1) of 2007.
LR-A.1.4	04/2011	Corrected issue date.
LR-3.1.3	04/2011	Clarified the appointment of a representative as part of the licensing process.
LR-3.1.5(l)	04/2011	Deleted reference to Phase 1.
LR-4.2.9A	04/2011	Clarified the payment of annual license fees for SPVs.
LR-1.4.6	07/2011	Added Paragraph concerning Shari'a compliant financing contracts for the purchase of land and property.
LR-2.8.1	07/2011	Updated language to reflect current terminology.



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

LR-A.2.4 (continued):

Module Reference	Change Date	Description of Changes
LR-A.1.2	10/2011	New reference added to reflect the issuance of Resolution No.(43) of 2011.
LR-3.3	10/2011	Clarified language on cancellation of a license or closure of a branch to be in line with other Volumes of the CBB Rulebook.
LR-1A.1.23	04/2012	Last sentence of Paragraph deleted as cross reference no longer applies.
LR-A.1.2	07/2012	Added reference to Regulation No 1 of 2007 pertaining to regulated services.
LR-A.1.13 and LR-A.1.14	07/2012	Amended Paragraphs to reflect updates for Volume 5
LR-B.1.3	07/2012	Corrected cross-reference.
LR-1.2.10	07/2012	Reference to 'other banks' deleted.
LR-1A.1.20	07/2012	Changed Guidance to Rule.
LR-1A.2.4	07/2012	Added cross-reference.
LR-1A.3.3	07/2012	Corrected cross-reference.
LR-2.8.1 and LR-2.8.2	07/2012	Attributed reference to CBB Law to correct Paragraph.
LR-3.1.18	07/2012	Corrected cross-reference.
LR-4.2.9B	07/2012	Added guidance regarding annual fees of SPVs of Bahrain domiciled CIUs.
LR-A.1.2	01/2013	Updated legal basis.
LR-A.1.4	01/2013	Updated reference to when Volume 5 will be issued.
LR-B.1.1	01/2013	Updated prohibition as per issuance of Resolution No.(16) for the year 2012.
LR-1.1	01/2013	References added to requirements under Resolution No.(16) for the year 2012.
LR-1.3.18	01/2013	Corrected typo.
LR-1.3.36 to LR-1.3.39	01/2013	Updated reference to CIU to be aligned with Volume 7.
LR-1A.1.3	01/2013	Clarified approval requirements for controlled functions for Bahrain operations.
LR-4.2	07/2013	Amended due date and collection process for annual license fee.
LR-1A.1	10/2013	Aligned controlled functions with Module TC.
LR-4.2.9A	10/2013	Clarified annual license fees for newly established SPVs.
LR-1.2.20	01/2014	Updated to refer to <u>licensed exchange</u> .
LR-1A.1.3	01/2014	Correction made to clarify which controlled functions are in relation to Bahrain operations.
LR-1A.1.17	01/2014	Amended requirement for notification for appointment of financial instrument trader and moved requirement to Paragraph BR-5.1.7.
LR-2.8.1	01/2014	Corrected to refer to proper accounting standards.
LR-1A.1	04/2014	Amended Rule on notification requirements dealing with approved persons.
LR-1.4.5	04/2015	Corrected reference in Rule to 'customers'.
LR-A.1.2	01/2016	Legal basis updated to reflect Resolution No (23) of 2015.
LR-1.4.4	01/2016	Expanded the scope of Shari'a compliant investments allowed for the bank's own account.
LR-1A	01/2016	Amended to reflect the issuance of Resolution No. (23) of the year 2015 dealing with approved persons.
LR-1A.1.20B	04/2016	Clarified approval process for applicants for approved persons.
LR-1A.1.18C	07/2016	Clarified Guidance on authorised representative for approval of controlled functions.
LR-3.1.11	10/2016	Added definition of certification
LR-2.5.2	04/2017	Deleted Paragraph on minimum paid up capital requirement.
LR-2.5.2A	04/2017	Added new paragraph on minimum paid up capital requirement for locally incorporated retail banks.





<b>MODULE</b>	<b>LR:</b>	<b>Licensing Requirements</b>
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## **LR-A.2 Module History (continued)**

LR-A.2.4 (continued):

Module Reference	Change Date	Description of Changes
LR-2.5.2B	04/2017	Added new paragraph on minimum paid up capital requirement for locally incorporated wholesale banks.
LR-2.5.6	04/2017	Amended paragraph to delete the requirement of endowment capital for overseas wholesale banks.
LR-1A.1.7	07/2017	Amended paragraph.
LR-2.2.2	07/2017	Amended paragraph.
LR-3.4	07/2017	Added new Section on Publication of the decision to grant, cancel or amend a license.
LR	07/2017	Changed the term "Overseas banks" to "branches of foreign banks".

LR-A.2.5 [This Paragraph was deleted in October 2007]



## **LR-B.1      Scope and Prohibitions**

- LR-B.1.1      The licensing requirements in Chapter LR-1 have general applicability, in that they prevent any person from providing (or seeking to provide) regulated banking services within or from the Kingdom of Bahrain, unless they have been licensed as a conventional bank licensee by the CBB or marketing any financial services unless specifically allowed to do so by the CBB (see Rule LR-1.1.1).
- LR-B.1.2      In addition, no one may use the term ‘bank’ in their trading or corporate name, or otherwise hold themselves out to be a bank in Bahrain, unless they hold the appropriate license from the CBB (see Rule LR-1.1.2).
- LR-B.1.3      The remaining requirements in Chapters LR-1 to LR-4 (besides those mentioned in Section LR-B.1 above) apply to all those licensed by the CBB as a conventional bank licensee, or which are in the process of seeking such a license. They apply regardless of whether the person concerned is incorporated in the Kingdom of Bahrain, or in an overseas jurisdiction, unless otherwise specified.
- LR-B.1.4      These remaining requirements prescribe the types of license offered; their associated operating conditions; the licensing conditions that have to be satisfied in order to secure and retain a license; and the processes to be followed when applying or varying a license, or when a license is withdrawn.
- LR-B.1.5      The Rules referred to above are supported by statutory restrictions contained in the CBB Law (cf. Articles 39 to 41 and 44 to 51).

<b>MODULE</b>	<b>LR:       Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-B:     Scope of Application</b>

**LR-B.2**        [This section was merged with section LR-B.1 in October 2007]



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.1 Conventional Bank Licensees**

### *General Prohibitions*

#### **LR-1.1.1**

No person may:

- (a) Undertake (or hold themselves out to undertake) regulated banking services within or from the Kingdom of Bahrain unless duly licensed by the CBB;
- (b) Hold themselves out to be licensed by the CBB unless they have as a matter of fact been so licensed; or
- (c) Market any financial services in the Kingdom of Bahrain unless:
  - (i) Allowed to do by the terms of a license issued by the CBB;
  - (ii) The activities come within the terms of an exemption granted by the CBB by way of a Directive; or
  - (iii) Has obtained the express written permission of the CBB to offer financial services.

LR-1.1.1A In accordance with Resolution No.(16) for the year 2012 and for the purpose of Subparagraph LR-1.1.1(c), the word ‘market’ refers to any promotion, offering, announcement, advertising, broadcast or any other means of communication made for the purpose of inducing recipients to purchase or otherwise acquire financial services in return for monetary payment or some other form of valuable consideration.

LR-1.1.1B Persons in breach of Subparagraph LR-1.1.1(c) are considered in breach of Resolution No.(16) for the year 2012 and are subject to penalties under Articles 129 and 161 of the CBB Law (see also Section EN-10.3).

#### **LR-1.1.2**

According to Article 41(a) of the CBB Law, only persons licensed to undertake regulated banking services (or regulated Islamic banking services), may use the term ‘bank’ in their corporate or trading names, or otherwise hold themselves out to be a bank.

LR-1.1.3 Licensees are not obliged to include the word ‘bank’ in their corporate or trading names; however, they are required to make clear their regulatory status in their letter heads, customer communications, website and so on.

LR-1.1.4 For the purposes of Rule LR-1.1.2, persons will be considered in breach of this requirement if they attempt to operate as, or incorporate a bank in Bahrain with a name containing the word “bank” (or the equivalents in any language), without holding the appropriate CBB license or obtaining the prior approval of the CBB.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.1 Conventional Bank Licensees (continued)**

### *Licensing*

#### **LR-1.1.5**

Persons wishing to be licensed to undertake regulated banking services within or from the Kingdom of Bahrain must apply in writing to the CBB.

#### **LR-1.1.6**

An application for a license must be in the form prescribed by the CBB and must contain:

- (a) A business plan specifying the type of business to be conducted;
- (b) Application forms for all controllers; and
- (c) Application forms for all controlled functions.

#### **LR-1.1.7**

The CBB will review the application and duly advise the applicant in writing when it has:

- (a) Granted the application without conditions;
- (b) Granted the application subject to conditions specified by the CBB; or
- (c) Refused the application, stating the grounds on which the application has been refused and the process for appealing against that decision.

#### **LR-1.1.8**

Detailed rules and guidance regarding information requirements and processes for license applications can be found in Section LR-3.1. As specified in Paragraph LR-3.1.14, the CBB will provide a formal decision on a license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the CBB.

#### **LR-1.1.9**

In granting new licenses, the CBB will specify the specific types of regulated banking service for which a license has been granted, and on what basis (i.e. conventional retail bank or conventional wholesale bank).

#### **LR-1.1.10**

All applicants for conventional bank licenses must satisfy the CBB that they meet, by the date of their license, the minimum conditions for licensing, as specified in Chapter LR-2. Once licensed, conventional bank licensees must maintain these criteria on an on-going basis.

#### **LR-1.1.11**

Conventional bank licensees must not carry on any commercial business in the Kingdom of Bahrain or elsewhere other than banking business and activities directly arising from or incidental to that business.



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<b>CHAPTER</b>	<b>LR-1:</b>	<b>Requirement to Hold a License</b>

## **LR-1.1 Conventional Bank Licensees (continued)**

- LR-1.1.12 Rule LR-1.1.11 is intended to restrict bank licensees from undertaking any material non-financial business activities. The Rule does not prevent a bank undertaking commercial activities if these directly arise from their financial business: for instance, in the context of Islamic contracts, such as murabaha, ijara and musharaka, where the bank may hold the physical assets being financed or leased. Nor does it restrict a bank from undertaking commercial activities if, in the judgement of the CBB, they are incidental and do not detract from the financial nature of the bank's operations: for example, a bank may rent out spare office space in its own office building, and provide services associated with the rental (e.g. office security or cleaning).
- LR-1.1.13 Rule LR-1.1.11 applies to the legal entity holding the bank license. A bank may thus own subsidiaries that undertake non-financial activities, although the CBB generally does not support the development of significant commercial activities within a banking group. Capital invested in such subsidiaries by a bank would be deducted from the bank's capital base under the CBB's capital rules (see Module CA). In addition, the CBB may impose restrictions – such as dealings between the bank and its commercial subsidiaries – if it was felt necessary to limit the bank's exposure to non-financial risks.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.2 License Sub-Categories**

### *Retail vs. Wholesale*

#### **LR-1.2.1**

Depending on the nature of activities undertaken, conventional bank licensees must be licensed either as a conventional retail bank or as a conventional wholesale bank.

#### **LR-1.2.2**

The nature of activities allowed under each license sub-Category is specified below (cf. Rule LR-1.2.4 and the following Paragraphs). The conventional retail bank Category replaces the Full Commercial Bank (conventional principles) Category that existed prior to July 2006; the conventional wholesale bank Category replaces the Offshore Banking Unit and Investment Bank License (conventional principles) categories.

#### **LR-1.2.3**

Banks licensed prior to the introduction of these new license categories in July 2006 are not required to reapply for their license. Rather, their new license Category is confirmed by an exchange of letters with the CBB, and the issuance of a new license certificate. Where (prior to July 2006) the same legal entity holds multiple licenses, CBB will agree transitional measures aimed at rationalizing the number of licenses held.

### *Conventional Retail Banks*

#### **LR-1.2.4**

Conventional retail banks are allowed to transact with both residents and non-residents of the Kingdom of Bahrain, and in both Bahrain Dinar and foreign currencies.

#### **LR-1.2.5**

To qualify as a conventional retail bank, the person concerned must undertake (as a minimum), the activities of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18). The activity of providing credit must be a significant part of the bank's business, relative to other activities.

#### **LR-1.2.6**

When assessing the significance of credit-related activities, in the context of Rule LR-1.2.5, the CBB would normally expect to see loans and other credit-related activity (such as overdraft facilities, loan commitments, letters of credit, guarantees and other activities falling under the definition of providing credit), to constitute at least 20% of the total assets of the institution. Other activities and criteria may also be taken into account, if the CBB believes they are of a credit-related nature, and that such activities constitute a significant share of the bank's overall business.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.2 License Sub-Categories (continued)**

### *Conventional Retail Banks (continued)*

LR-1.2.7 In the case of new applicants, the above assessment is made based on the financial projections and business plan provided as part of the license application. Where existing licensees fail to satisfy the condition contained in Rule LR-1.2.5, the CBB will initiate discussion with the licensee as to the appropriateness of its license category: this may result in the licensee being required to change its license category. A branch of an overseas bank may nonetheless be allowed to hold a bank license in Bahrain, even if it fails to undertake the activities specified in Rule LR-1.2.5, providing that it undertakes other regulated banking services in Bahrain and its head office is licensed as a bank in its home country.

LR-1.2.8 The purpose of Rule LR-1.2.5 is to ensure that, besides deposit-taking, the core banking activity of providing credit forms part of the definition of conventional retail banks, and accounts for a significant share of their business, in keeping with their intermediation function.

### *Conventional Wholesale Banks*

#### **LR-1.2.9**

Conventional wholesale banks are allowed to transact with residents of the Kingdom of Bahrain (irrespective of currency), and in Bahrain Dinar (irrespective of the location of the counterparty), subject to the conditions and exemptions specified in Rules LR-1.2.11, LR-1.2.13, LR-1.2.16 and LR-1.2.18. Foreign currency transactions with non-residents are not subject to these conditions.

LR-1.2.10 The effect of Rule LR-1.2.9 is to limit the on-shore/Bahrain Dinar customer business of conventional wholesale banks to larger transactions. By definition, their on-shore client base is therefore wholesale in nature (i.e. large corporates and high net-worth individuals).

#### **LR-1.2.11**

To qualify as a conventional wholesale bank, the person concerned must undertake (as a minimum), the activities of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18).

LR-1.2.12 The purpose of Rule LR-1.2.11 is to ensure that the core banking activities of deposit-taking and providing credit form part of the definition of conventional wholesale banks. However, unlike conventional retail banks, there is no requirement that the activity of providing credit must be a significant part of the bank's business, relative to other activities. This is to allow conventional wholesale banks greater flexibility as to the nature of their activities; it also recognises that, because of the wholesale nature of their client base, there is less need to limit the scale of non-credit related risks to which their depositors may be exposed. Rule LR-1.2.11 does not in any way prevent conventional wholesale banks from developing the provision of credit as a major activity, should they wish to. The Guidance provided in Paragraph LR-1.2.7 with regards to overseas banks is also applicable to Rule LR-1.2.11.





MODULE	LR: Licensing Requirements
CHAPTER	LR-1: Requirement to Hold a License

## LR-1.2 License Sub-Categories (continued)

### *Conventional Wholesale Banks (continued)*

#### LR-1.2.13

Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (a) to (e) listed in Rule LR-1.3.1, only where the individual transaction is BD 7 million or above (or its foreign currency equivalent).

#### LR-1.2.14

To comply with Rule LR-1.2.13, the initial amount taken as a deposit must be BD 7 million or above (or its equivalent in foreign currency); however, subsequent additions and withdrawals from that deposit account may be for any amount. The initial amount taken as deposit may be split between different types of accounts (e.g. call, 3-month and 6-month accounts) – providing at least BD 7 million is taken from the customer on the same day and the bank's records can demonstrate this. Where subsequent withdrawals lead to a zero balance on an account (or the aggregate of accounts where more than one was originally opened), then a further BD 7 million must be deposited to re-start the 'wholesale' relationship, before additional deposits for smaller amounts may be made.

#### LR-1.2.15

Similarly, with respect to credit-related transactions, the initial facility amount advised must be for BD 7 million or above (or its equivalent); but drawdowns (and repayments) under the facility may be for any amount, as may any subsequent changes to the facility amount. If the facility is fully repaid, then a further BD 7 million transaction must be agreed in order to re-start the 'wholesale' relationship.

#### LR-1.2.16

Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (f) to (l) listed in Rule LR-1.3.1, only where the individual transaction is US\$ 100,000 or above (or its foreign currency equivalent).

#### LR-1.2.17

With respect to activities (f) and (g) (dealing in financial instruments as principal/agent), the threshold refers to the individual transaction size. With respect to activities (h) and (i) (managing/safeguarding financial instruments), the threshold refers to the initial investment amount. With respect to activity (j) (operating a collective investment scheme), the threshold refers to the minimum investment required for participation in the scheme. With respect to activities (k) and (l) (arranging deals in / advising on financial instruments), the threshold refers to the size of the deal arranged or of the investment on which advice is being given.



MODULE	LR: Licensing Requirements
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## LR-1.2 License Sub-Categories (continued)

### *Conventional Wholesale Banks (continued)*

LR-1.2.18 Note that the threshold with respect to activities (h) and (i) applies to the initial investment amount: where a subsequent distribution to a client or a reduction in the mark to market value of the investment reduces the initial investment amount below US\$ 100,000, it is still considered a wholesale transaction. The threshold in Rule LR-1.2.16 applies to a client even if the same client satisfies the BD 7m threshold in Rule LR-1.2.13, with respect to deposit/credit activities. Finally, the initial amount taken as an investment may be split between two or more investment products - providing at least US\$ 100,000 is taken from the customer on the same day and the bank's records can demonstrate this.

**LR-1.2.19** Conventional wholesale bank licensees may only undertake activities (m) and (n) listed in Rule LR-1.3.1, on behalf of residents of Bahrain and/or in Bahrain Dinar, where the customer concerned meets either of the thresholds specified in LR-1.2.13 or LR-1.2.16 (in which case, activities (m) and (n) may be undertaken for any amount).

**LR-1.2.20** Notwithstanding Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19, conventional wholesale banks are allowed to transact in Bahrain Dinar (or any other currency) for any amount with the Government of Bahrain, Bahrain public sector entities (as defined in the Guidelines for completion of the Prudential Information Reports), and CBB bank licensees. Conventional wholesale banks may also transact in Bahrain Dinar for any amount, where required to fund their normal operating expenses; or when investing for their own account in securities listed on a licensed exchange.

**LR-1.2.21** Any transactions entered into prior to 1 July 2006 which may be in breach of the conditions specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 must be notified to the CBB. These transactions will be allowed to mature.

LR-1.2.22 Since the conventional wholesale bank regime represents an easing of the restrictions on on-shore business that previously applied to offshore bank licensees (i.e. OBUs and IBLs), there should be few transactions of the type specified in Rule LR-1.2.21 – they are likely to exist only where individual ad-hoc exemptions may have been previously granted by the CBB, and these exemptions went further than those now being applied across the Board to all conventional wholesale bank licensees.

**LR-1.2.23** Conventional wholesale banks must seek prior written CBB approval if they wish to undertake transactions of the type specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 if the transactions are below the thresholds mentioned in LR-1.2.13 or LR- 1.2.16.



<b>MODULE</b>	<b>LR:           Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1:       Requirement to Hold a License</b>

## **LR-1.2       License Sub-Categories (continued)**

### *Conventional Wholesale Banks (continued)*

- LR-1.2.24       The approval requirement in Rule LR-1.2.23 only has to be made once, prior to the licensee starting to undertake such transactions. Its purpose is to allow the CBB to monitor the initiation of such business by conventional wholesale bank licensees, and to check that adequate systems and controls have been in place, so that such transactions are likely to be well managed. In addition, it is to allow, where relevant, for the necessary arrangements to be made to ensure that conventional wholesale banks comply with the CBB's reserve requirements (which apply to deposit liabilities denominated in Bahrain Dinars - see LR-2.5.10).

**LR-1.2.25       Conventional wholesale banks that are unclear about the interpretation of the conditions specified in Rules LR-1.2.13, LR-1.2.16 or LR-1.2.19 must consult the CBB prior to undertaking the transaction concerned.**

- LR-1.2.26       The CBB may publish additional interpretative guidance on the above conditions, in response to licensees' queries. The minimum thresholds specified under Rules LR-1.2.13 and LR-1.2.16 will be kept under review by the CBB and may be amended in response to market developments.

### *Shari'a Compliant Transactions*

**LR-1.2.27       Conventional bank licensees may not hold themselves out as an Islamic bank. Conventional bank licensees may only enter into activities (c) to (e) listed in Rule LR-1.3.1, in accordance with the conditions outlined in Section LR-1.4.**

**LR-1.2.28       [This paragraph was deleted in October 2007]**

- LR-1.2.29       Conventional bank licensees may freely deal in financial instruments or operate a collective investment scheme that happens to be Shari'a compliant (because of the nature of the financial instruments concerned).



MODULE	LR: Licensing Requirements
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### LR-1.3 Definition of Regulated Banking Services

#### LR-1.3.1

Regulated banking services are any of the following activities, carried on by way of business:

- (a) Deposit-taking;
- (b) Providing Credit;
- (c) Accepting Shari'a money placements/deposits;
- (d) Managing Shari'a profit/loss sharing investment accounts;
- (e) Offering Shari'a Financing Contracts;
- (f) Dealing in financial instruments as principal;
- (g) Dealing in financial instruments as agent;
- (h) Managing financial instruments;
- (i) Safeguarding financial instruments;
- (j) Operating a Collective Investment Undertaking;
- (k) Arranging deals in financial instruments;
- (l) Advising on financial instruments;
- (m) Providing money exchange/remittance services; or
- (n) Issuing/administering means of payment.

#### LR-1.3.2

Upon application, the CBB may exclude specific transactions from the definition of regulated banking services.

#### LR-1.3.3

The CBB will normally only consider granting such an exemption when a Bahrain resident is unable to obtain a specific product in Bahrain and it would be unreasonable to require the overseas provider of that product to be licensed for that specific transaction, and the provider has no intention of regularly soliciting such business in Bahrain.

#### LR-1.3.4

For the purposes of Rule LR-1.3.1, carrying on a regulated banking service by way of business means:

- (a) Undertaking the regulated banking service of (a), plus any of the activities (b) to (n), as defined in Section LR-1.3, for commercial gain;
- (b) Holding oneself out as willing and able to engage in such activities; or
- (c) Regularly soliciting other persons to engage in transactions constituting such activities.

#### LR-1.3.5

Licensees should note that they may still undertake activities falling outside the definition of regulated banking services, such as investing in physical commodities – subject to Rule LR-1.1.11. The fact that an activity is not included in the definition of regulated banking services does not mean that it is prohibited. In transitioning to the new licensing framework, the CBB will be closely liaising with licensees to ensure that no disruption occurs to their legitimate business activities.



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## LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.6 Licensees should note that the same legal entity cannot combine regulated banking services with other regulated services, such as regulated insurance services. However, different legal entities within the same group may of course each hold a different license (e.g. banking and insurance).

### *General Exclusions*

**LR-1.3.7** A person does not carry on an activity constituting a regulated banking service if the activity:

- (a) Is carried on in the course of a business which does not ordinarily constitute the carrying on of financial services;
- (b) May reasonably be regarded as a necessary part of any other services provided in the course of that business; and
- (c) Is not remunerated separately from the other services.

LR-1.3.8 For example, the taking of a deposit in connection with the rental of a property would not be considered a regulated banking service, since it satisfies the criteria in Rule LR-1.3.7.

**LR-1.3.9** A person does not carry on an activity constituting a regulated banking service if the person is a body corporate and carries on that activity solely with or for other bodies corporate that are members of the same group.

**LR-1.3.10** A person does not carry on an activity constituting a regulated banking service if such person carries on an activity with or for another person, and they are both members of the same family.

**LR-1.3.11** A person does not carry on an activity constituting a regulated banking service if the sole or main purpose for which the person enters into the transaction is to limit any identifiable risks arising in the conduct of his business, providing the business conducted does not itself constitute a regulated activity.

LR-1.3.12 For example, an industrial company entering into an interest rate swap to switch floating-rate borrowings for fixed rate borrowings, in order to manage interest rate risk, would not be considered to be dealing in financial instruments as principal, and would not therefore be required to be licensed as a conventional bank.



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### LR-1.3 Definition of Regulated Banking Services (continued)

**LR-1.3.13** A person does not carry on an activity constituting a regulated banking service if that person enters into that transaction solely as a nominee for another person, and acts under instruction from that other person.

**LR-1.3.14** A person does not carry on an activity constituting a regulated banking service if that person is a government body charged with the management of financial instruments on behalf of a government or public body.

**LR-1.3.15** A person does not carry on an activity constituting a regulated banking service if that person is an exempt person, as specified by Royal decree.

#### *Deposit-taking*

**LR-1.3.16** Deposit-taking is defined as receiving a sum of money paid on terms under which it will be repaid in full, with or without interest or a premium, and either on demand or in circumstances agreed by the parties involved. It excludes sums referable to the giving of security or as a fee paid in advance for goods or services. It also excludes money received by a person in consideration for debt instruments issued by the same person, or money received by a person entering into a loan or other financing agreement.

LR-1.3.17 The above definition, therefore, includes savings, current, notice, fixed and time deposits.

#### *Providing Credit*

**LR-1.3.18** Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit; and providing credit by way of finance leases, factoring, forfaiting, and reverse repo transactions. It also includes the issuance or endorsement of letters of credit; the issuance of letters of guarantee and other contingent credit activities (such as the underwriting of loans); the purchase on the secondary market of loans and other contracts of credit (that do not otherwise fall under the definition of financial instruments); and the provision of ancillary credit-related activities, such as advising on or arranging loans. It excludes money advanced to a person in consideration for debt instruments issued by the same person.



MODULE	LR: Licensing Requirements
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### LR-1.3 Definition of Regulated Banking Services (continued)

#### *Accepting Shari'a Money Placements/Deposits*

**LR-1.3.19** Accepting Shari'a money placements is defined as the acceptance of sums of money for safe-keeping ('al-wadia', 'q'ard') in a Shar'ia compliant framework, under which it will be repaid, either on demand or in circumstances agreed by the parties involved, and which is not referable to the giving of security.

#### *Offering Shari'a Financing Contracts*

**LR-1.3.20** Offering Shari'a financing contracts is defined as entering into, or making arrangement for another person to enter into, a contract to provide finance in accordance with Shari'a principles, such as murabaha, bay muajjal, bay salam, ijara wa iktina and istisna'a contracts.

#### *Managing Shari'a Profit Sharing Investment Accounts*

**LR-1.3.21** Managing a Shari'a profit sharing investment account is defined as managing an account, portfolio or fund, whereby a sum of money is placed with the service provider on terms that a return will be made according to an agreed Shari'a compliant profit-sharing arrangement, based either on a mudaraba or musharaka partnership.

#### *Dealing in Financial Instruments as Principal*

**LR-1.3.22** Dealing in financial instruments as principal means buying, selling, subscribing for or underwriting any financial instrument on one's account.

LR-1.3.23 Rule LR-1.3.22 includes the underwriting of equity and other financial instruments. The underwriting of loans comes under the activity of providing credit (see Rule LR-1.3.18). It also includes the temporary sale of a financial instrument through a repo transaction.





<b>MODULE</b>	<b>LR: Licensing Requirements</b>
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## **LR-1.3 Definition of Regulated Banking Services (continued)**

**LR-1.3.24** A person does not carry on an activity specified in Rule LR-1.3.22 if the activity relates to the person issuing his own shares/debentures, warrants or bonds.

### *Dealing in Financial Instruments as Agent*

**LR-1.3.25** Dealing in financial instruments as agent means buying, selling, subscribing for or underwriting financial instruments on behalf of a client.

LR-1.3.26 A licensee that carries on an activity of the kind specified by Rule LR-1.3.25 does not determine the terms of the transaction and does not use its own financial resources for the purpose of funding the transaction. Such a licensee may however receive or hold assets in connection with the transaction, in its capacity as agent of its client.

### *Managing Financial Instruments*

**LR-1.3.27** Managing financial instruments means managing on a discretionary basis financial instruments on behalf of another person.

LR-1.3.28 The activities included under the definition of Rule LR-1.3.27 include activities such as asset management.

### *Safeguarding Financial Instruments (i.e. Custodian)*

**LR-1.3.29** Safeguarding financial instruments means the safeguarding of financial instruments for the account of clients.

**LR-1.3.30** A person does not carry on an activity specified in Rule LR-1.3.29 if the person receives documents relating to a financial instrument for the purpose of onward transmission to, from, or at the direction of the person to whom the financial instrument belongs; or else is simply providing a physical safekeeping service such as a deed box.

**LR-1.3.31** A person does not carry on an activity specified in Rule LR-1.3.29 if a third person, namely a qualifying custodian, accepts responsibility with regard to the financial instrument.





<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.3 Definition of Regulated Banking Services (continued)**

### **LR-1.3.32**

A “qualifying custodian” means a person who is:

- (a) A licensee who has permission to carry on an activity of the kind specified in Rule LR-1.3.29; or
- (b) An exempt person in relation to activities of that kind.

### **LR-1.3.33**

A person does not carry on an activity specified in Rule LR-1.3.29 if they are managing a central depository, which is part of an exchange recognised by the CBB.

### **LR-1.3.34**

The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity of the kind specified under Rule LR-1.3.29:

- (a) Providing information as to the number of units or the value of any assets safeguarded; and
- (b) Converting currency.

### **LR-1.3.35**

A person undertaking an activity of the kind specified under Rule LR-1.3.29 may also be engaged in the administration of the financial instruments, including related services such as cash/ collateral management.

### *Operating a Collective Investment Undertaking*

### **LR-1.3.36**

Operating a collective investment undertaking (“CIU”) means operating, establishing or winding up a collective investment undertaking.

### **LR-1.3.37**

For the purposes of LR-1.3.36, a CIU is defined in Volume 7 Paragraph ARR-B.1.1

### **LR-1.3.38**

[This Paragraph was deleted in January 2013].

### **LR-1.3.39**

[This Paragraph was deleted in January 2013].



MODULE	LR: Licensing Requirements
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### LR-1.3 Definition of Regulated Banking Services (continued)

#### *Arranging Deals in Financial Instruments*

**LR-1.3.40** Arranging deals in financial instruments means making arrangements with a view to another person, whether as principal or agent, buying, selling, or subscribing for, or underwriting deals in, financial instruments.

**LR-1.3.41** A person does not carry on an activity specified in Rule LR-1.3.40 if the arrangement does not bring about the transaction to which the arrangement relates.

**LR-1.3.42** A person does not carry on an activity specified in Rule LR-1.3.40 if a person's activities are limited solely to introducing clients to licensees.

LR-1.3.43 The exclusion in Rule LR-1.3.42 does not apply if the agent receives from any person, other than the client, any pecuniary reward or other advantage, which he does not account to the client, arising out of his entering into the transaction. Thus, if A receives a commission from B for arranging credit or deals in investment for C, the exclusion in Rule LR-1.3.42 does not apply.

**LR-1.3.44** A person does not carry on an activity specified in Rule LR-1.3.40 merely by providing the means of communication between two parties to a transaction.

**LR-1.3.45** A person does not carry on an activity specified in Rule LR-1.3.40 if they operate an exchange, duly recognised and authorised by the CBB.

LR-1.3.46 Negotiating terms for an investment on behalf of a client is an example of an activity which may be regarded as an activity of the kind specified in Rule LR-1.3.40.

LR-1.3.47 The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity of the kind specified in Rule LR-1.3.40:

- (a) Appointing professional advisers;
- (b) Preparing a prospectus/business plan;
- (c) Identifying potential sources of funding;
- (d) Assisting investors/subscribers/borrowers to complete and submit application forms; or
- (e) Receiving application forms for processing/checking and/or onward transmission.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.3 Definition of Regulated Banking Services (continued)**

### *Advising on Deals in Financial Instruments*

#### **LR-1.3.48**

Advising on financial instruments means giving advice to an investor or potential investor (or a person in his capacity as an agent for an investor or potential investor) on the merits of buying, selling, subscribing for or underwriting a particular financial instrument or exercising any right conferred by such a financial instrument.

#### **LR-1.3.49**

The following are examples of activities, which may be regarded as an activity as defined by Rule LR-1.3.48:

- (a) A person may offer to tell a client when shares reach a certain value on the basis that when the price reaches that value it would be a good time to buy or sell them;
- (b) Recommendation on the size or timing of transactions; and
- (c) Advice on the suitability of the financial instrument, or on the characteristics or performance of the financial instrument concerned.

#### **LR-1.3.50**

A person does not carry on an activity specified in Rule LR-1.3.48 by giving advice in any newspaper, journal, magazine, broadcast services or similar service in any medium if the principal purpose of the publication or service, taken as a whole, is neither that of:

- (a) Giving advice of the kind mentioned in Rule LR-1.3.48; nor
- (b) Leading or enabling persons to buy, sell, subscribe for or underwrite a financial instrument.

#### **LR-1.3.51**

The following are examples of activities, which when taken in isolation, are unlikely to be regarded as an activity as defined by Rule LR-1.3.48:

- (a) Explaining the structure, or the terms and conditions of a financial instrument;
- (b) Valuing financial instruments for which there is no ready market;
- (c) Circulating company news or announcements;
- (d) Comparing the benefits and risks of one financial instrument to another; and
- (e) Advising on the likely meaning of uncertain provisions in an agreement relating to, or the terms of, a financial instrument or on the effect of contractual terms and their commercial consequences or on terms that are commonly accepted in the market.

### *Providing Money Exchange/Remittance Services*

#### **LR-1.3.52**

Means providing exchange facilities between currencies, and the provision of wire transfer or other remittance services.



MODULE	LR: Licensing Requirements
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### LR-1.3 Definition of Regulated Banking Services (continued)

#### *Issuing/Administering Means of Payment*

##### LR-1.3.53

Means the selling or issuing of payment instruments, or the selling or issuing of stored value (e.g. credit cards, travellers' cheques, electronic purses).



MODULE	LR: Licensing Requirements
CHAPTER	LR-1: Requirement to Hold a License

## LR-1.4 Shari'a Compliant Transactions

### *General Requirements for all Conventional Banks*

#### LR-1.4.1

Conventional bank licensees may not hold themselves out as an Islamic bank. Conventional bank licensees are allowed to enter into activities (c) to (e) listed in Rule LR-1.3.1 under the conditions outlined in the remainder of this section, subject to the thresholds and conditions outlined in Section LR-1.2 (concerning facilities offered to Bahrain residents and facilities in Bahrain Dinar in particular).

#### LR-1.4.2

Shari'a compliant financing facilities provided by conventional bank licensees are treated as normal risk-weighted assets in the PIR and are not subject to the risk-weighting treatment under Volume 2.

#### LR-1.4.3

When offering any of the Shari'a compliant activities (c) to (e) listed in Rule LR-1.3.1, conventional bank licensees must have staff trained in Shari'a compliant banking business. The bank must also disclose in the notes to its Annual Report/Financial Statement all quantitative and qualitative disclosures on its Shari'a compliant business as required by AAOIFI accounting and auditing standards.

#### LR-1.4.4

Conventional bank licensees may invest in Shari'a compliant financial instruments for their own account or make an investment in a Shari'a compliant syndication where the bank's role is limited to provide the funding for such investment and the bank has not participated in the structuring nor the preparation of any documentation in relation to this investment.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1: Requirement to Hold a License</b>

## **LR-1.4 Shari'a Compliant Transactions (continued)**

### *Additional Requirements for Conventional Retail Banks*

#### **LR-1.4.5**

Conventional retail banks licensees may provide Shari'a compliant activities (c) to (e) listed in Rule LR-1.3.1 in any amount and in any currency to customers subject to the following conditions:

- (a) Shari'a compliant financing and funding to be undertaken through a special counter or branch as deemed necessary by the bank;
- (b) The bank must maintain separate books for Shari'a compliant banking activities to ensure no co-mingling of conventional and Islamic funds;
- (c) The bank must have a dedicated treasurer or senior trader for Shari'a compliant business and must also have a Shari'a compliance reviewer; and
- (d) The bank must establish a Shari'a Supervisory Board with a minimum of three board members. The board may have global authority for all Shari'a compliant business or may have authority purely for Islamic business booked in Bahrain.

### *Additional Requirements for the Financing of Land or Property in Bahrain by Way of Shari'a Compliant Financing Contracts*

#### **LR-1.4.6**

Retail bank branches of foreign banks may provide Shari'a compliant financing (activity (e) listed in Rule LR-1.3.1) in any amount and in any currency to customers for the purpose of purchasing land or properties in Bahrain subject to the conditions below:

- (a) The branch must secure the CBB's prior written approval for offering such financing;
- (b) The purpose of ownership of the concerned land or property by the bank must be for the purpose of the subsequent resale to the customer under a Shari'a compliant financing contract;
- (c) The period of legal ownership of the concerned land or property by the branch must be limited only to the financing phase of the Shari'a compliant financing contract; and
- (d) In the case of default by the customer and repossession by the branch, the land or property must be disposed of within one year of the date of the termination of the Shari'a compliant financing contract. Branches may approach the CBB to extend this period for a maximum of one additional year.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A: Approved Persons</b>

## **LR-1A.1 CBB Notification and Approval**

### *General Requirement*

**LR-1A.1.1** Conventional bank licensees must obtain the CBB's prior written approval for any person wishing to undertake a controlled function in a conventional bank licensee. The approval from the CBB must be obtained prior to their appointment (subject to the variations contained in Rule LR-1A.1.3).

**LR-1A.1.2** Controlled functions are those functions occupied by board members and persons in executive positions and include:

- (a) Board Member;
- (b) Chief Executive or General Manager and their Deputies;
- (c) Chief Financial Officer and/or Financial Controller
- (d) Head of Risk Management;
- (e) Head of Internal Audit;
- (f) Head of Shari'a Review;
- (g) Compliance Officer;
- (h) Money Laundering Reporting Officer;
- (i) Deputy Money Laundering Reporting Officer; and
- (j) Heads of other Functions.

**LR-1A.1.3** Prior approval is required for all controlled functions in relation to Bahrain operations. Controlled functions (g) and (h) may be combined, however (see also FC-4.1, regarding the MLRO function).

### *Basis for Approval*

LR-1A.1.4 Approval under Rule LR-1A.1.1 is only granted by the CBB, if it is satisfied that the person is fit and proper to hold the particular position in the licensee concerned. 'Fit and proper' is determined by the CBB on a case-by-case basis. The definition of 'fit and proper' and associated guidance is provided in Sections LR-1A.2 and LR-1A.3 respectively.

### *Definitions*

**LR-1A.1.5** Board members collectively are responsible for the business performance and strategy of the conventional bank licensee, as outlined in more details in Section HC-1.2.

**LR-1A.1.6** When taken as a whole, the board of directors of a conventional bank licensee must be able to demonstrate that it has the necessary skills and expertise, as outlined in Paragraph HC-1.2.10.



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

## LR-1A.1 CBB Notification and Approval (continued)

**LR-1A.1.7** The Chief Executive or General Manager means a person who is responsible for the conduct of the licensee (regardless of actual title). The Chief Executive or General Manager must be resident in Bahrain. The scope of authority of the CEO and his deputies is outlined in more detail in Subparagraph HC-6.3.2 (a).

**LR-1A.1.8** The head of risk management is responsible for the management and control of all risk exposures arising from the activities of the conventional bank licensee.

**LR-1A.1.9** The head of internal audit is responsible for providing independent and objective review on the adequacy and effectiveness of the holistic internal control environment within the conventional bank licensee. The duties of the head of internal audit are outlined in more detail in Subparagraph HC-6.3.2 (d).

**LR-1A.1.9A** The head of Shari'a review in a conventional bank licensee, dealing with Islamic products and services, is responsible for the examination of the extent of a conventional bank licensee's compliance, in all its activities, with the Shari'a. This examination includes contracts, agreements, policies, products, transactions memorandum and articles of association, financial statements, reports (especially internal audit and central bank inspection), circulars, etc. The objective of the Shari'a review is to ensure that the activities carried out by a conventional bank licensee do not contravene the Shari'a.

### *Compliance Officer*

**LR-1A.1.10** All banks must appoint a senior member of staff with responsibility for the management of compliance risk as their Compliance Officer/Manager.

**LR-1A.1.11** The compliance function must be independent (i.e. it must not be placed in a position where its other duties or responsibilities may cause a conflict of interest with its compliance risk management responsibilities). Therefore the compliance function must be separate from the internal audit function. The compliance officer or manager may however, perform other limited related compliance roles (e.g. the MLRO or legal advisor), subject to the CBB's prior approval.





MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

## LR-1A.1 CBB Notification and Approval (continued)

**LR-1A.1.12** The compliance function must have adequate resources to carry out its functions effectively.

**LR-1A.1.13** The bank must also outline how the compliance function fits into the bank's senior management reporting structure, and must give details of relevant reporting lines within the bank.

**LR-1A.1.14** In the case of locally incorporated banks, the compliance officer/manager must have access to the Board of Directors in addition to the senior management.

**LR-1A.1.15** Heads of other functions, where risk acquisition or control is involved, are responsible for tracking specific functional performance goals in addition to identifying, managing, and reporting critical organisational issues upstream. Certain functions require dealing directly with clients while others do not. Both categories of functions, however, require specific qualifications and experience to meet the objectives as well as compliance requirements of the conventional bank licensee.

**LR-1A.1.16** Where a firm is in doubt as to whether a function should be considered a controlled function it must discuss the case with the CBB.

### *Prior Approval Requirements and Process*

**LR-1A.1.17** Conventional bank licensees must obtain CBB's prior written approval before a person is formally appointed to a controlled function; the request for CBB approval must be made by submitting to the CBB a duly completed Form 3 (Application for Approved Person status) and Curriculum Vitae after verifying that all the information contained in Form 3, including previous experience, is accurate. Form 3 is available under Volume 1 Part B Authorisation Forms of the CBB Rulebook.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A: Approved Persons</b>

## **LR-1A.1 CBB Notification and Approval (continued)**

### **LR-1A.1.18**

When the request for approved person status forms part of a license application, the Form 3 must be marked for the attention of the Director, Licensing and Policy Directorate. When the submission to undertake a controlled function is in relation to an existing conventional bank licensee, the Form 3 must be marked for the attention of either the Director, Retail Banks Supervision or the Director, Wholesale Banks Supervision, as appropriate. In the case of the MLRO or DMLRO, Form 3 should be marked for the attention of the Director, Compliance Directorate.

### **LR-1A.1.18A**

When submitting Form 3, conventional bank licensees must ensure that the Form 3 is:

- (a) Submitted to the CBB with a covering letter signed by an authorised representative of the conventional bank licensee, seeking approval for the proposed controlled function;
- (b) Submitted in original form;
- (c) Submitted with a certified copy of the applicant's passport, original or certified copies of educational and professional qualification certificates (and translation if not in Arabic or English) and the Curriculum Vitae; and
- (d) Signed by an authorised representative of the conventional bank licensee and all pages stamped on with the conventional bank licensee's seal.

### **LR-1A.1.18B**

Conventional bank licensees seeking to appoint Board Directors must seek CBB approval for all the candidates to be put forward for election/approval at a shareholders' meeting, in advance of the agenda being issued to shareholders. CBB approval of the candidates does not in any way limit shareholders' rights to refuse those put forward for election/approval.

### **LR-1A.1.18C**

For existing conventional bank licensees applying for the appointment of a Board Director or the Chief Executive/General Manager, the authorised representative should be the Chairman of the Board or a Director signing on behalf of the Board. For all other controlled functions, the authorised representative should be the Chief Executive/General Manager, or a suitably senior representative of the bank.

### **LR-1A.1.19**

[This Paragraph was deleted in January 2016.]

### **LR-1A.1.20**

[This Paragraph was moved to Paragraph LR-1A.1.18B in January 2016.]



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A: Approved Persons</b>

## **LR-1A.1 CBB Notification and Approval (continued)**

### *Assessment of Application*

- LR-1A.1.20A The CBB shall review and assess the application for approved person status to ensure that it satisfies all the conditions required in Paragraph LR-1A.2.6 and the criteria outlined in Paragraph LR-1A.2.7.
- LR-1A.1.20B For purposes of Paragraph LR-1A.1.20A, conventional bank licensees should give the CBB a reasonable amount of notice in order for an application to be reviewed. The CBB shall respond within 15 business days from the date of meeting all required conditions and regulatory requirements, including but not limited to, receiving the application complete with all the required information and documents, as well as verifying references and interviewing the applicant. The CBB will advise the conventional bank licensee once the application is considered complete.
- LR-1A.1.20C The CBB reserves the right to refuse an application for approved person status if it does not satisfy the conditions provided for in Paragraph LR-1A.2.6 and does not satisfy the CBB criteria in Paragraph LR-1A.2.7. A notice of such refusal is issued by registered mail to the conventional bank licensee concerned, setting out the basis for the decision.

### *Appeal Process*

- LR-1A.1.21 Conventional bank licensees or the nominated approved persons may, within 30 calendar days of the notification, appeal against the CBB's decision to refuse the application for approved person status. The CBB shall decide on the appeal and notify the conventional bank licensees of its decision within 30 calendar days from the date of submitting the appeal.
- LR-1A.1.21A When notification of the CBB's decision to grant a person approved person status is not issued within 15 business days from the date of meeting all required conditions and regulatory requirements, including but not limited to, receiving the application complete with all the required information and documents, conventional bank licensees or the nominated approved person may appeal to the Executive Director, Banking Supervision of the CBB provided that the appeal is justified with supporting documents. The CBB shall decide on the appeal and notify the conventional bank licensees of its decision within 30 calendar days from the date of submitting the appeal.

### *Notification Requirements and Process*

#### **LR-1A.1.22**

**Conventional bank licensees must immediately notify the CBB when an approved person, for whatever reason, ceases to hold the controlled function for which they have been approved (i.e. transferred to another function within the bank, or to another group entity, or else has resigned, been suspended or dismissed). The notification must include the reasons for the action taken.**



MODULE	LR: Licensing Requirements
CHAPTER	LR-1A: Approved Persons

## LR-1A.1 CBB Notification and Approval (continued)

**LR-1A.1.23** [Rule moved to Paragraph BR-5.1.17 in April 2014.]

LR-1A.1.24 [This Paragraph was deleted in April 2014].

**LR-1A.1.25** If a controlled function falls vacant, the conventional bank licensee must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the conventional bank licensee must make immediate interim arrangements to ensure continuity of the duties and responsibilities of the controlled function affected. These interim arrangements must be approved by the CBB.

**LR-1A-1.26** Conventional bank licensees must immediately notify the CBB should they become aware of information that could reasonably be viewed as calling into question an approved person's compliance with CBB's 'fit and proper' requirement (see LR-1A.2).



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A: Approved Persons</b>

## **LR-1A.2 Approved Persons Conditions: ‘Fit and proper’ Requirement**

### **LR-1A.2.1**

Conventional bank licensees seeking an approved person authorisation for an individual, must satisfy the CBB that the individual concerned is ‘fit and proper’ to undertake the controlled function in question.

### **LR-1A.2.2**

Each applicant applying for approved person status and those individuals occupying approved person positions must comply with the following conditions:

- (a) Has not previously been convicted of any felony or crime that relates to his/her honesty and/or integrity unless he/she has subsequently been restored to good standing;
- (b) Has not been the subject of any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud;
- (c) Has not been adjudged bankrupt by a court unless a period of 10 years has passed, during which the person has been able to meet all his/her obligations and has achieved economic accomplishments;
- (d) Has not been disqualified by a court, regulator or other competent body, as a director or as a manager of a corporation;
- (e) Has not failed to satisfy a judgement debt under a court order resulting from a business relationship;
- (f) Must have personal integrity, good conduct and reputation;
- (g) Has appropriate professional and other qualifications for the controlled function in question (see Appendix TC-1 in Module TC (Training and Competency)); and
- (h) Has sufficient experience to perform the duties of the controlled function (see Appendix TC-1 in Module TC (Training and Competency)).

### **LR-1A.2.3**

In assessing the conditions prescribed in Rule LR-1A.2.2, the CBB will take into account the criteria contained in Paragraph LR-1A.2.4. The CBB reviews each application on a case-by-case basis, taking into account all relevant circumstances. A person may be considered ‘fit and proper’ to undertake one type of controlled function but not another, depending on the function’s job size and required levels of experience and expertise. Similarly, a person approved to undertake a controlled function in one conventional bank licensee may not be considered to have sufficient expertise and experience to undertake nominally the same controlled function but in a much bigger licensee.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A: Approved Persons</b>

## **LR-1A.2 Approved Persons Conditions: ‘Fit and proper’ Requirement (continued)**

LR-1A.2.4 In assessing a person’s fitness and propriety, the CBB will also consider previous professional and personal conduct (in Bahrain or elsewhere) including, but not limited to, the following:

- (a) The propriety of a person’s conduct, whether or not such conduct resulted in a criminal offence being committed, the contravention of a law or regulation, or the institution of legal or disciplinary proceedings;
- (b) A conviction or finding of guilt in respect of any offence, other than a minor traffic offence, by any court or competent jurisdiction;
- (c) Any adverse finding in a civil action by any court or competent jurisdiction, relating to misfeasance or other misconduct in connection with the formation or management of a corporation or partnership;
- (d) Whether the person, or any body corporate, partnership or unincorporated institution to which the applicant has, or has been associated with as a director, controller, manager or company secretary been the subject of any disciplinary proceeding, investigation or fines by any government authority, regulatory agency or professional body or association;
- (e) The contravention of any financial services legislation;
- (f) Whether the person has ever been refused a license, authorisation, registration or other authority;
- (g) Dismissal or a request to resign from any office or employment;
- (h) 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 have been declared bankrupt whilst the person was connected with that partnership;
- (i) The extent to which the person has been truthful and open with supervisors; and
- (j) Whether the person has ever entered into any arrangement with creditors in relation to the inability to pay due debts.

LR-1A.2.5 With respect to Paragraph LR-1A.2.4, the CBB will take into account the length of time since any such event occurred, as well as the seriousness of the matter in question.

### **LR-1A.2.6**

**Approved persons undertaking a controlled function must act prudently, and with honesty, integrity, care, skill and due diligence in the performance of their duties. They must avoid conflicts of interest arising whilst undertaking a controlled function (refer to Chapter HC-2).**

LR-1A.2.7 In determining whether a conflict of interest may arise, factors that may be considered include whether:

- (a) A person has breached any fiduciary obligations to the company or terms of employment;
- (b) A person has undertaken actions that would be difficult to defend, when looked at objectively, as being in the interest of the licensee; and
- (c) A person has failed to declare a personal interest that has a material impact in terms of the person’s relationship with the licensee.



<b>MODULE</b>	<b>LR:</b>	<b>Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A:</b>	<b>Approved Persons</b>

## **LR-1A.2      Approved Persons Conditions: ‘Fit and proper’ Requirement (continued)**

LR-1A.2.8      Further guidance on the process for assessing a person’s ‘fit and proper’ status is given in Module EN (Enforcement); see Chapter EN-5.

<b>MODULE</b>	<b>LR:           Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-1A:       Approved Persons</b>

**LR-1A.3     [This Section was deleted in January 2016.]**





MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

## LR-2.1 Condition 1: Legal Status

### LR-2.1.1

The legal status of a conventional bank licensee must be:

- (i) A Bahraini joint stock company (BSC); or
- (ii) A branch resident in Bahrain of a conventional bank incorporated under the laws of its territory of incorporation and authorised as a bank in that territory.

### LR-2.1.2

Where the conventional bank licensee is a branch of a foreign bank, in deciding whether to grant a license, the CBB will pay close regard to its activities elsewhere and how these activities are regulated. If the conventional bank licensee is not regulated elsewhere or in a jurisdiction not substantially compliant with Basel Core Principles or FATF standards, then an application for licensing can only be considered after exhaustive enquiries into the bank's shareholders, management structure and financial position.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

## LR-2.2 Condition 2: Mind and Management

### LR-2.2.1

Conventional bank licensees with their Registered Office in the Kingdom of Bahrain must maintain their Head Office in the Kingdom. Branches of foreign conventional bank licensees must maintain a local management presence and premises in the Kingdom appropriate to the nature and scale of their activities.

### LR-2.2.2

In assessing the location of a conventional bank licensee's Head Office, the CBB will take into account the residency of its Directors and senior management. The CBB requires the majority of key decision makers in executive management – including the Chief Executive Officer - to be resident in Bahrain. In the case of branches of foreign bank licensees, the CBB requires the branch to have a substantive presence, demonstrated by a level of staff and other resources sufficient to ensure adequate local scrutiny and control over business booked in the Bahrain branch or subsidiary.



MODULE	LR: Licensing Requirements
CHAPTER	LR-2: Licensing Conditions

## LR-2.3 Condition 3: Controllers

### LR-2.3.1

Conventional bank licensees must satisfy the CBB that their controllers are suitable and pose no undue risks to the licensee. Conventional banks must also satisfy the CBB that their group structures do not prevent the effective supervision of the conventional bank licensee by the CBB and otherwise pose no undue risks to the licensee.

LR-2.3.2 Chapter GR-5 contains the CBB's requirements and definitions regarding controllers.

LR-2.3.3 In summary, controllers are persons who directly or indirectly are significant shareholders in a conventional bank licensee, or who are otherwise able to exert significant influence on the conventional bank licensee. The CBB seeks to ensure that controllers pose no significant risks to the licensee. In general terms, controllers are assessed in terms of their financial standing, their judicial and regulatory record, and standards of business and (where relevant) personal probity.

LR-2.3.4 As regards group structures, the CBB seeks to ensure that these do not prevent adequate consolidated supervision being applied to financial entities within the group, and that other group entities do not pose any material financial, reputational or other risks to the licensee.

LR-2.3.5 In all cases, when judging applications from existing groups, the CBB will have regard to the reputation and financial standing of the group as a whole. Where relevant, the CBB will also take into account the extent and quality of supervision applied to overseas members of the group and take into account any information provided by other supervisors in relation to any member of the group.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

## LR-2.4 Condition 4: Board and Employees

### LR-2.4.1

Those nominated to carry out controlled functions must satisfy the CBB's approved persons requirements. This Rule is supported by Article 65 of the CBB Law.

### LR-2.4.2

The definition of controlled functions is contained in Paragraph LR-1A.1.2, whilst Section LR-1A.2 sets out CBB's approved persons requirements.

### LR-2.4.3

The conventional bank licensee's staff, taken together, must collectively provide a sufficient range of skills and experience to manage the affairs of the licensee in a sound and prudent manner. Conventional bank licensees must ensure their employees meet any training and competency requirements specified by the CBB.



MODULE	LR: Licensing Requirements
CHAPTER	LR-2: Licensing Conditions

## LR-2.5 Condition 5: Financial Resources

### *Capital Adequacy*

#### LR-2.5.1

Conventional bank licensees must maintain a level of financial resources, as agreed with the CBB, adequate for the level of business proposed. The level of financial resources held must at all times meet the minimum risk-based requirements contained in Module CA (Capital Adequacy), as specified for the Category of banking license held.

#### LR-2.5.2

This paragraph was deleted in April 2017.

#### LR-2.5.2A

All Bahraini conventional retail banks licensees, must maintain a minimum capital of BD 100 million, including general reserves and retained earnings.

#### LR-2.5.2B

All Bahraini conventional wholesale banks licensees, must maintain a minimum capital of US\$ 100 million, including general reserves and retained earnings.

#### LR-2.5.3

Persons seeking a license as a conventional bank licensee must submit a 3-year business plan, with financial projections. Their proposed level of paid-up capital must be sufficient to cover expected regulatory capital requirements over that period, based on projected activities.

#### LR-2.5.4

In practice, applicants seeking a conventional bank license are likely to be required to hold significantly more capital than the minimum paid-up capital specified in Rule LR-2.5.2.

#### LR-2.5.5

**Foreign bank** applicants are required to provide written confirmation from their head office that the head office will provide financial support to the branch sufficient to enable it to meet its obligations as and when they fall due. **Foreign bank** applicants must also demonstrate that the bank as a whole is adequately resourced for the amount of risks underwritten, and that it and its group meet capital adequacy standards applied by its home supervisor.

#### LR-2.5.6

For conventional retail bank licensees, deposit liabilities must not exceed 20 times their capital and reserves.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

## LR-2.5 Condition 5: Financial Resources (continued)

LR-2.5.7 Factors taken into account in setting endowment capital for branches includes the financial strength of the parent company, the quality of its risk management, and the nature and scale of the Bahrain operations of the branch.

### *Liquidity*

#### LR-2.5.8

Conventional bank licensees must maintain sufficient liquid assets to meet their obligations as they fall due in the normal course of their business. Conventional bank licensees must agree a liquidity management policy with the CBB.

LR-2.5.9 The CBB would normally expect the mark-to-market value of assets that could be readily realised at short-notice to exceed 25% of deposit liabilities at all times. Liquidity arrangements may vary, however, particularly for branches of foreign conventional banks, as agreed with the CBB and documented in the liquidity management policy.

### *Reserve Requirements*

#### LR-2.5.10

Conventional bank licensees must maintain a minimum daily cash reserve balance with the CBB set as a ratio of their total non-bank Bahrain Dinar deposits and Bahrain Dinar denominated Certificates of Deposit. The current required ratio is 5% and may be varied by the CBB at its discretion.



MODULE	LR: Licensing Requirements
CHAPTER	LR-2: Licensing Conditions

## LR-2.6 Condition 6: Systems and Controls

### LR-2.6.1

Conventional bank licensees must maintain systems and controls that are, in the opinion of the CBB, adequate for the scale and complexity of their activities. These systems and controls must meet the minimum requirements contained in Modules HC, CM and OM.

### LR-2.6.2

Conventional bank licensees must maintain systems and controls that are, in the opinion of the CBB, adequate to address the risks of financial crime occurring in the licensee. These systems and controls must meet the minimum requirements contained in Module FC, as specified for the Category of license held.

### LR-2.6.3

Applicants will be required to demonstrate in their business plan (together with any supporting documentation) what risks their business would be subject to and how they would manage those risks. Applicants may be asked to provide an independent assessment of the appropriateness of their systems and controls to the CBB, as part of the license approval process.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-2:	Licensing Conditions

## LR-2.7 Condition 7: External Auditor

### LR-2.7.1

Article 61 of the CBB Law requires that conventional bank licensees must appoint an external auditor, subject to the CBB's prior approval. The minimum requirements regarding external auditors contained in Module AU (Auditors and Accounting Standards) must be met.

### LR-2.7.2

Applicants must submit details of their proposed external auditor to the CBB as part of their license application.





MODULE	LR: Licensing Requirements
CHAPTER	LR-2: Licensing Conditions

## LR-2.8 Condition 8: Other Requirements

### *Books and Records*

#### LR-2.8.1

Article 59 of the CBB Law requires that Conventional bank licensees must maintain comprehensive books of accounts and other records, and satisfy the minimum record-keeping requirements contained in Article 60 of the pre-mentioned Law and Module OM. Books of accounts must comply with the financial accounting standards issued by the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), as updated from time to time.

### *Provision of Information*

#### LR-2.8.2

Article 58, 111, 114 and 163 of the CBB Law require that Conventional bank licensees and their staff must act in an open and cooperative manner with the CBB. Conventional bank licensees must meet the regulatory reporting and public disclosure requirements contained in Modules BR and PD respectively. As per Article 62 of the CBB Law, audited financial statements must be submitted to the CBB within 3 months of the licensee's financial year-end.

### *General Conduct*

#### LR-2.8.3

Conventional bank licensees must conduct their activities in a professional and orderly manner, in keeping with good market practice. Conventional bank licensees must comply with the general standards of business conduct contained in Module PB, as well as the standards relating to treatment of customers contained in Modules BC and CM.

#### LR-2.8.4

[This paragraph has been moved to chapter LR-4 in October 2007]

#### LR-2.8.5

[This paragraph has been deleted in October 2007]

### *Additional Conditions*

#### LR-2.8.6

Conventional bank licensees must comply with any other specific requirements or restrictions imposed by the CBB on the scope of their license.



MODULE	LR: Licensing Requirements
CHAPTER	LR-2: Licensing Conditions

## LR-2.8 Condition 8: Other Requirements (continued)

LR-2.8.7 Bank licensees are subject to the provisions of the CBB Law. These include the right of the CBB to impose such terms and conditions, as it may deem necessary when issuing a license, as specified in Article 45 of the CBB Law. Thus, when granting a license, the CBB specifies the regulated banking services that the licensee may undertake. Licensees must respect the scope of their license. LR-3.2 sets out the process for varying the scope of an authorisation, should a licensee wish to undertake new activities.

LR-2.8.8 In addition, the CBB may impose additional restrictions or requirements, beyond those already specified in Volume 1, to address specific risks. For instance, a license may be granted subject to strict limitations on intra-group transactions.

**LR-2.8.9** Conventional retail bank licensees are subject to the deposit protection scheme of eligible deposits held with the Bahrain offices of the licensee (see Chapter CP-2). This Rule is supported by Article 177 of the CBB Law.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

## **LR-3.1 Licensing**

### **LR-3.1.1**

Applicants for a license must submit a duly completed Form 1 (Application for a License), under cover of a letter signed by an authorised signatory of the applicant marked for the attention of the Director, Licensing and Policy Directorate. The application letter must be accompanied by the documents listed in Paragraph LR-3.1.5, unless otherwise directed by the CBB.

### **LR-3.1.2**

[This paragraph was deleted in October 2007]

### **LR-3.1.3**

References to applicant mean the proposed licensee seeking authorisation. An applicant may appoint a representative – such as a law firm or professional consultancy – to prepare and submit the application. However, the applicant retains full responsibility for the accuracy and completeness of the application, and is required to certify the application form accordingly. The CBB also expects to be able to liaise directly with the applicant during the authorisation process, when seeking clarification of any issues.

### **LR-3.1.4**

[This paragraph was deleted in October 2007]

### **LR-3.1.5**

Unless otherwise directed by the CBB, the following documents must be provided together with the covering letter referred in LR-3.1.1 above in support of a license application:

- (a) A duly completed Form 2 (Application for Authorisation of Controller) for each controller of the proposed licensee;
- (b) A duly completed Form 3 (Application for Approved Person status), for each proposed Director of the proposed licensee;
- (c) A comprehensive business plan for the application, addressing the matters described in LR-3.1.6;
- (d) For **branches of foreign** banks, a copy of the bank's current commercial registration or equivalent documentation;
- (e) Where the applicant is an existing institution, a copy of the applicant's commercial registration;
- (f) Any relevant Private Placement Memoranda or public offering documents (if funds are to be raised by external shareholders);
- (g) Where the applicant is a corporate body, a certified copy of a Board resolution of the applicant along with minutes of the concerned meeting, confirming the board's decision to seek a CBB conventional bank license;
- (h) In the case of applicants that are part of a regulated group, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the group is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy and solvency requirements;



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

### **LR-3.1 Licensing (continued)**

- (i) In the case of branches of foreign banks applicants, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the applicant is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy requirements;
- (j) In the case of branch applicants, copies of the audited financial statements of the applicant (head office) for the three years immediately prior to the date of application; and
- (k) In the case of applicants for a licence for a locally incorporated bank, copies of the audited financial statements of the applicant's major shareholder and/or group (as directed by the CBB), for the three years immediately prior to the date of application;
- (l) A duly completed Form 3 (Application for Approved Person status), for each individual, (other than for Directors covered in item (b) above) applying to undertake controlled functions in the applicant; and
- (m) A draft copy of the applicant's (and parent's where applicable) memorandum and articles of association, addressing the matters described in LR-3.1.7.

**LR-3.1.5A** The CBB, in its complete discretion may ask for a guarantee from the applicant's controlling or major shareholders on a case by case basis as it deems appropriate/necessary as part of the required documents to be submitted as mentioned in Paragraph LR-3.1.5 above.

**LR-3.1.6** The business plan submitted in support of an application should explain:

- (a) An outline of the history of the applicant and its shareholders;
- (b) The reasons for applying for a license, including the applicant's strategy and market objectives;
- (c) The proposed type of activities to be carried on by the applicant in/from the Kingdom of Bahrain;
- (d) The proposed Board and senior management of the applicant and the proposed organisational structure of the applicant;
- (e) An assessment of the risks that may be faced by the applicant, together with the proposed systems and controls framework to be put in place for addressing those risks and to be used for the main business functions; and
- (f) An opening balance sheet for the applicant, together with a three-year financial projection, with all assumptions clearly outlined, demonstrating that the applicant will be able to meet applicable capital adequacy and liquidity requirements.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

## **LR-3.1 Licensing (continued)**

### **LR-3.1.7**

The applicant's (and where applicable, its parent's) memorandum and articles of association must explicitly provide for it to undertake the activities proposed in the licensed application, and must preclude the applicant from undertaking other commercial activities, unless these arise out of its banking activities or are incidental to those.

### **LR-3.1.8**

In the case of a new bank's capital being financed by a private placement, the Private Placement Memorandum must also be submitted to the CBB for its approval.

#### **LR-3.1.9**

The purpose of Rule LR-3.1.8 is to allow the CBB to verify that the contents of the Private Placement Memorandum are consistent with other information supplied to the CBB, notably in the business plan, and otherwise meets any applicable regulatory requirements with respect to PPM documents. The CBB's review of the PPM does not in any way constitute an approval or endorsement as to any claims it may contain as to the future value of the proposed bank.

### **LR-3.1.10**

[This paragraph was deleted in October 2007]

### **LR-3.1.11**

All documentation provided to the CBB as part of an application for a license must be in either Arabic or English language. Any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof. Certification must be performed by an official of the concerned licensee (if already licensed), a lawyer, or a Government body such as an Embassy or Ministry. The certification must include the words "original sighted" together with a date and signature of the concerned authorised official (along with corporate stamp where applicable). The certifier's contact details should be clearly available (e.g. business card) with the certification.

### **LR-3.1.12**

Any material changes or proposed changes to the information provided to the CBB in support of an authorisation application that occurs prior to authorisation must be reported to the CBB.

### **LR-3.1.12A**

Before the final approval is granted to a licensee, confirmation from a retail bank addressed to the CBB that the licensee's capital (injected funds) – as specified in the business plan submitted under Rule LR-3.1.5 – has been paid in must be provided to the CBB.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

## **LR-3.1 Licensing (continued)**

LR-3.1.13 Failure to inform the CBB of the changes specified in LR-3.1.12 is likely to be viewed as a failure to provide full and open disclosure of information, and thus a failure to meet licensing condition LR-2.8.2.

LR-3.1.14 As part of the application process, the CBB will provide a formal decision on a license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the CBB, as specified in Article 44 (e) of the CBB Law. The applicant must submit within 6 months of the application date, all remaining requirements or otherwise has to submit a new application to the CBB. Applicants are encouraged to approach the CBB to discuss their application at an early stage, so that any specific questions can be dealt with prior to the finalisation of the application.

### **LR-3.1.15**

**Within 6 months of the license being issued, the new licensee must provide to the CBB:**

- (a) A detailed action plan for establishing the operations and supporting infrastructure of the bank, such as the completion of written policies and procedures, and recruitment of remaining employees (having regard to the time limit set by Article 48 (c) of the CBB Law);
- (b) The registered office address and details of premises to be used to carry out the business of the proposed licensee;
- (c) The address in the Kingdom of Bahrain where full business records will be kept;
- (d) The licensee's contact details including telephone and fax number, e-mail address and website;
- (e) A description of the business continuity plan;
- (f) A description of the IT system that will be used, including details of how IT systems and other records will be backed up;
- (g) A copy of the auditor's acceptance to act as auditor for the applicant;
- (h) A copy of the applicant's notarised memorandum and articles of association, addressing the matters described in Paragraph LR-3.1.7;
- (i) A copy of the Ministry of Industry & Commerce commercial registration certificate in Arabic and in English;
- (j) A copy of the bank's business card and any written communication (including stationery, website, e-mail, business documentation, etc.) including a statement that the bank is licensed by the CBB, specifying whether it is licensed either as conventional wholesale or conventional retail bank; and
- (k) Other information as may be specified by the CBB.



MODULE	LR: Licensing Requirements
CHAPTER	LR-3: Information Requirements and Processes

## LR-3.1 Licensing (continued)

### LR-3.1.15A

With respect to the requirement under Subparagraph LR-3.1.15(j), conventional bank licensees must ensure that they comply with this Rule by 31<sup>st</sup> March 2011.

- LR-3.1.16 Applicants issued new licenses by the CBB must start operations within 6 months of the license being issued, as per Article 48 (c) of the CBB Law. Failure to comply with this rule lead to enforcement action being taken against the licensee concerned, as specified in Article 128 of the CBB Law. Conventional bank licensee must at all times keep an approved copy of the licence displayed in a visible place on the Licensee's premises in the Kingdom, as per Article 47 (b) of the CBB Law.
- LR-3.1.17 Applicants who are refused a license have a right of appeal under the provisions contained in Article 46 of the CBB Law, which shall not be less than thirty days from the date of the decision. The Central Bank will decide on the appeal made by the applicant and notify him of its decision within thirty days from the date of submission of the appeal.
- LR-3.1.18 Applicants may not publicise in any way the application for a licence for, or formation of, a bank before the formal decision referred to in Paragraph LR-3.1.14 is provided to the applicant or the concerned agent.



<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

## **LR-3.2 Variations to a License**

### **LR-3.2.1**

As per Article 48 of the CBB Law, Conventional bank licensees must seek prior CBB approval before undertaking new regulated banking services.

### **LR-3.2.2**

Failure to secure CBB approval prior to undertaking a new regulated activity may lead to enforcement action being taken against the concerned person. This is supported by Article 40 of the CBB law.

### **LR-3.2.3**

In addition to any other information requested by the CBB, and unless otherwise directed by the CBB, a conventional bank licensee requesting CBB approval to undertake a new regulated banking service must provide the following information:

- (a) A summary of the rationale for undertaking the proposed new activities;
- (b) A description of how the new business will be managed and controlled;
- (c) An analysis of the financial impact of the new activities; and
- (d) A summary of the due diligence undertaken by the Board and management of the conventional bank licensee on the proposed new activities.

### **LR-3.2.4**

The CBB may amend or revoke a licence in any of the following cases:

- (a) If the licensee fails to satisfy any of the license conditions;
- (b) If the licensee violates the terms of this regulation or any of the Volume's directives;
- (c) If the licensee fails to start business within six months from the date of the licence;
- (d) If the licensee ceases to carry out the licensed activity in the Kingdom; and
- (e) The legitimate interests of the customers or creditors of a licensee required such amendment or cancellation.

### **LR-3.2.5**

The CBB's procedures for amending or revoking a license is outlined in detail in the Enforcement Module (EN).





<b>MODULE</b>	<b>LR: Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3: Information Requirements and Processes</b>

### **LR-3.3 Withdrawal of a License or Closure of a Branch**

#### *Voluntary Surrender of a License or Closure of a Branch*

##### **LR-3.3.1**

In accordance with Article 50 of the CBB Law, all requests for the voluntary surrender of a license or closure of a branch are subject to the CBB's prior written approval, before ceasing such activities. Such requests must be made in writing to the Executive Director of Banking Supervision, setting out in full the reasons for the request and how the voluntary surrender of the license or branch closure is to be carried out.

##### **LR-3.3.2**

Conventional bank licensees must satisfy the CBB that their customers' interests are to be safeguarded during and after the proposed voluntary surrender or closure of the branch. The requirements contained in Chapter GR-7 regarding cessation of business must be satisfied.

##### **LR-3.3.3**

The CBB will only approve a voluntary surrender where it has no outstanding regulatory concerns and any relevant customers' interests would not be prejudiced. A voluntary surrender will not be accepted where it is aimed at pre-empting supervisory actions by the CBB. Also, a voluntary surrender will only take effect once the licensee, in the opinion of the CBB, has discharged all its regulatory responsibilities to customers.

#### *Cancellation of a License by the CBB*

##### **LR-3.3.3A**

As provided for under Article 48 (c) of the CBB Law, the CBB may itself move to cancel a license. The CBB generally views the cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. See also Chapter EN-9, regarding the cancellation or amendment of licenses, including the procedures used in such instances and the licensee's right to appeal the formal notice of cancellation issued by the CBB.

##### **LR-3.3.4**

Cancellation of a license requires the CBB to issue a formal notice of cancellation to the person concerned. The notice of cancellation describes the CBB's rationale for the proposed cancellation, as specified in Article 48 (d) of the CBB Law.

##### **LR-3.3.5**

[This Paragraph was deleted in October 2011.]

##### **LR-3.3.6**

Where the cancellation of a license has been confirmed by the CBB, the CBB will only effect the cancellation once a licensee has discharged all its regulatory responsibilities to customers. Until such time, the CBB will retain all its regulatory powers with regards to the licensee, and will direct the licensee such that no new regulated banking services may be undertaken whilst the licensee discharges its obligations to customers.



MODULE	LR: Licensing Requirements
CHAPTER	LR-3: Information Requirements and Processes

#### **LR-3.4 Publication of the Decision to Grant, Cancel or Amend a License**

**LR-3.4.1** In accordance with Articles 47 and 49 of the CBB Law, the CBB must publish its decision to grant, cancel or amend a license in the Official Gazette and in two local newspapers, one in Arabic and the other in English.

**LR-3.4.2** For the purposes of Paragraph LR-3.4.1, the cost of publication must be borne by the Licensee.

**LR-3.4.3** The CBB may also publish its decision on such cancellation or amendment using any other means it considers appropriate, including electronic means



MODULE	LR:	Licensing Requirements
CHAPTER	LR-4:	License Fees

## LR-4.1 License Application Fees

### LR-4.1.1

With immediate effect, applicants seeking a conventional bank license from the CBB must pay a non-refundable license application fee of BD 100 at the time of submitting their formal application to the CBB.

### LR-4.1.2

There are no application fees for those seeking approved person status.



MODULE	LR: Licensing Requirements
CHAPTER	LR-4: License Fees

## LR-4.2 Annual License Fees

**LR-4.2.1** Conventional bank licensees must pay the relevant annual license fee to the CBB on 1<sup>st</sup> of December of the previous year for which the fees are due.

**LR-4.2.2** Conventional retail bank licensees must pay a variable annual licensing fee based on 1% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD30,000 and a cap of BD240,000.

**LR-4.2.3** Bahraini conventional wholesale bank licensees must pay a variable annual licensing fee based on 0.5% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD13,000 and a cap of BD100,000.

**LR-4.2.4** Wholesale branches of foreign bank licensees must pay a variable annual licensing fee based on 0.25% of their total annual operating expenses by way of an annual license fee, subject to a floor of BD13,000 and a cap of BD100,000.

**LR-4.2.5** The fees due on 1<sup>st</sup> December are those covering the following calendar year and are calculated on the basis of the conventional bank's latest audited financial statements for the previous calendar year: i.e. the fee payable on 1<sup>st</sup> December 2013 for the 2014 year (for example) is calculated using the audited financial statements for 2012, assuming a 31<sup>st</sup> December year end. Where a licensee does not operate its accounts on a calendar-year basis, then the most recent audited financial statements available are used instead.

**LR-4.2.6** Relevant operating expenses are defined as the total operating expenses of the licensee concerned, as recorded in the most recent audited financial statements available, subject to the adjustments specified in Rule LR-4.2.7.

**LR-4.2.7** The adjustments to be made to relevant operating expenses are the exclusion of the following items from total operating expenses:

- (a) Training fees;
- (b) Charitable donations;
- (c) Previous year's CBB fees paid; and
- (d) Non-executive Directors' remuneration.

**LR-4.2.8** For the avoidance of doubt, operating expenses for the purposes of this Section, do not include items such as depreciation, provisions, interest expense, and dividends.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-4:	License Fees

## LR-4.2 Annual License Fees (continued)

LR-4.2.9 The CBB would normally rely on the audited accounts of a licensee as representing a true and fair picture of its operating expenses. However, the CBB reserves the right to enquire about the accounting treatment of expenses, and/or policies on intra-group charging, if it believes that these are being used artificially to reduce a license fee.

**LR-4.2.9A** Conventional bank licensees must pay a fixed annual fee of BD 1,000 for each locally incorporated SPV in Bahrain which is under the control of and/or providing an actual business function, service or activity (whether actively or passively) for the bank and/or others at the bank's direction or having been established under the bank's direction for that purpose. The CBB approval for any new SPV will only be granted, once the annual fee has been paid. The full amount of the BD 1,000 annual fee is due in the year the SPV is set up and it is not prorated for the number of months remaining in the year.

LR-4.2.9B Paragraph LR-4.2.9A does not apply to SPVs of Bahrain domiciled CIUs. In the case of Bahrain domiciled CIUs, banks should refer to the relevant Chapter in Module ARR of Volume 7, depending on the classification of the Bahrain domiciled CIU.

**LR-4.2.10** Conventional Bank licensees must complete and submit Form ALF (Annual License Fee) to the CBB, no later than 15<sup>th</sup> October of the preceding year for which the fees are due.

**LR-4.2.10A** All conventional bank licensees are subject to direct debit for the payment of the annual fees and must complete and submit to the CBB a Direct Debit Authorisation Form by 15<sup>th</sup> September, available under Part B of Volume 1 (Conventional Banks) CBB Rulebook on the CBB Website.

**LR-4.2.11** For new licensees, their first annual license fee is payable when their license is issued by the CBB. The amount payable is the floor amount specified for conventional bank licensees, reduced on a pro-rata basis such that they are charged only for the number of complete months left in the current calendar year.



MODULE	LR:	Licensing Requirements
CHAPTER	LR-4:	License Fees

## LR-4.2 Annual License Fees (continued)

- LR-4.2.12 For example, if a conventional retail bank is issued a license on 6 June 2007, then it would be asked to pay an annual license fee that same month, covering the remaining period left for the calendar year 2007. The fee would be calculated as BD 30,000 (the minimum amount payable by a conventional retail bank licensee, multiplied by 6/12 (the number of complete months left in the year, i.e. July to December inclusive, divided by the total number of months in the year), giving a fee liability of BD 15,000. For the following year (2008) annual fee, the licensee would submit a Form ALF by 15<sup>th</sup> October 2007, and calculate its fee as the floor amount. For future years, the licensee would submit a Form ALF by 15<sup>th</sup> October of the preceding year for which the fees are due and calculate its fee using its last audited financial statements (or alternative arrangements as agreed with CBB, should its first set of accounts cover an 18-month period).
- LR-4.2.13 Where a license is cancelled (whether at the initiative of the firm or the CBB), no refund is paid for any months remaining in the calendar year in question, should a fee have been paid for that year.
- LR-4.2.14 Conventional bank licensees failing to comply with this Section may be subject to financial penalties for date sensitive requirements as outlined in Section EN-6.2A or may have their licenses withdrawn by the CBB.