



# **CBB REPORTING MODULE**



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MODULE	BR:	CBB Reporting
CHAPTER	BR-A:	Introduction

## BR-A.1 Purpose

### *Executive Summary*

BR-A.1.1 This Module sets out requirements applicable to investment firm licensees regarding reporting to the Central Bank of Bahrain (“CBB”). These include the provision of financial information to the CBB by way of quarterly prudential returns, as well as notification to the CBB of certain specified events, some of which require prior CBB approval. This Module also outlines the methods used by the CBB in gathering information required in the supervision of investment firm licensees.

BR-A.1.2 The requirements in this Module apply to all categories of investment firm licensees.

### *Legal Basis*

#### BR-A.1.3

This Module contains the CBB’s Directive (as amended from time to time) regarding CBB Reporting requirements applicable to investment firm licensees, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 (“CBB Law”).

BR-A.1.4 For an explanation of the CBB’s rule-making powers and different regulatory instruments, see section UG-1.1.



<b>MODULE</b>	<b>BR: CBB Reporting</b>
<b>CHAPTER</b>	<b>BR-A: Introduction</b>

## BR-A.2 Module History

### *Evolution of Module*

BR-A.2.1 This Module was first issued in July 2007, as part of the second phase release of Volume 4's contents. It is dated July 2007. All subsequent changes to this Module are annotated with the end-calendar quarter date in which the change was made: UG-3 provides further details on Rulebook maintenance and version control.

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

Module Ref.	Change Date	Description of Changes
BR-1.1	10/2009	Updated to include CBB's new requirements for preparation and submission of Quarterly Prudential Report and Auditors Report.
BR-1.2	10/2009	Corrected Heading to read Annual Group Return.
BR-1.3	10/2009	Amended to include CBB's requirements for prudential and reporting dates of a branch.
BR-1.4	10/2009	New Section added to include CBB's reporting requirements in accordance with other Modules of Volume 4.
BR-2.2	10/2009	Updated to include CBB's notification requirements in accordance with other Modules of Volume 4.
BR-2.3	10/2009	Updated to include CBB's approval requirements in accordance with other Modules of Volume 4.
BR-1.4.6	07/2010	New Rule added to clarify requirements for listed companies.
BR-2.2.1 and BR-3.4.3	07/2010	Paragraphs amended.
BR-2.3.13	07/2010	Amended cross reference.
BR-2.3.29	07/2010	Added cross reference.
BR-A.1.3	01/2011	Clarified legal basis.
BR-1.4.6	01/2011	Amendment made to recognise "licensed exchange".
BR-1.4.12 and BR-1.4.13	01/2011	Added IIS reporting requirements.
BR-2.2.9	01/2011	Administrator not to be shown as a defined term in this Paragraph.
BR-2.2.22	01/2011	Amended reference to "direct" supervisory contact.
BR-2.3.5	01/2011	Removed reference to additional premises.
BR-2.3.8	01/2011	Clarified Rule dealing with change in authorised or issued capital.
BR-2.3.12	01/2011	Rule amended as it does not apply to overseas investment firms.
BR-2.3.18	01/2011	Rule amended to remove reference to "directors".
BR-1.4.13	04/2011	Corrected cross reference.
BR-2.3.15, BR-2.3.16 and BR-2.3.17	04/2011	Paragraphs amended to incorporate new requirements under Chapter GR-10.



<b>MODULE</b>	<b>BR: CBB Reporting</b>
<b>CHAPTER</b>	<b>BR-A: Introduction</b>

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

BR-A.2.2 (continued)

Module Ref.	Change Date	Description of Changes
BR-1.4.9A	10/2011	Added requirement for submission of complaint handling procedures report.
BR-3.5	10/2011	Transferred material from EN-2 and AA-5 dealing with appointed experts.
BR-1.1.8	01/2012	Clarified application of Rule to Category 1 and Category 2 <u>investment firm licensees</u> .
BR-2.3.33	01/2012	Added notification to be provided to the Financial Institutions Supervision Directorate.
BR-1.4.10	07/2012	Deleted Paragraph to be in line with changes made to Module FC.
BR-2.3.27A	07/2012	Added a Paragraph to reflect CBB prior approval requirements under Paragraph CA-1.1.5A.
BR-3.1.1A and BR-3.1.1B	07/2012	Added Paragraphs to clarify Rules on power to request information.
BR-3.3.1 and BR-3.4	07/2012	Minor corrections.
BR-2.3.32	10/2012	Reference updated to reflect the issuance of Volume 7 (CIU).
BR-1.4.12	01/2013	Clarified deadline to update IIS.
BR-2.3.27B	01/2013	Added a Rule requiring CBB prior written approval where an investment firm licensee proposes to settle a subordinated loan made by its shareholders, either fully or partially.
BR-2.3.19(a)	04/2013	Correction made to proper cross reference.
BR-1.4.11	10/2013	Aligned defined term with Glossary.
BR-2.2.5, BR-2.2.26, BR-2.3.6 and BR-3.2.2	10/2013	Removed reference to appointed representatives.
BR-2.3.33	10/2014	Added cross reference to Module OFS in Volume 6 of the CBB Rulebook.
BR-1.1.6	07/2015	Clarified that the QPR is to be filed on a consolidated basis.
BR-1.4.1 and BR-2.3.11	10/2015	Added cross reference to reflect update to Chapter GR-5.
BR-2.2.23, BR-2.2.23A and BR-2.3.10	10/2015	Amended to be in line with updated Chapter GR-5.
BR-2.2.16 and BR-2.2.22	01/2016	Corrected cross references.
BR-2.2.6	04/2016	Clarified to whom notification requirements must be sent in the cases of fraud.
BR-1.1.8	10/2016	Added reference to AA-3.1.1
BR-1.4.6A	10/2016	Added a new Rule on submitting to the CBB the Audited financial statements of subsidiaries.
BR-2.2.23	01/2017	Amended to be consistent with GR-5.1.5.
BR-1A.4	04/2017	Added a new Section on Onsite Inspection Reporting.
BR-2.2.17	04/2017	Corrected reference
BR-1.4.11	10/2017	Amended Paragraph to clarify that licensees are to formally declare in writing that they do not possess any Client assets.
BR-1.4.11	04/2018	Amended Paragraph.
BR-1B.4	10/2018	Added a new Section on Report on Private Placements.



<b>MODULE</b>	<b>BR: CBB Reporting</b>
<b>CHAPTER</b>	<b>BR-A: Introduction</b>

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

Module Ref.	Change Date	Description of Changes
BR-1.4.5A	10/2019	Added a new Paragraph on disclosure of financial penalties.
BR-1B.4.1	01/2020	Amended Paragraph to add requirements applicable to Cat. 1 and 2.
BR-1B.4.2	01/2020	Amended Paragraph on reports purpose.
BR-1B.4.6	01/2020	Added a new Paragraph on reporting requirements.
BR-2.3.12	01/2020	Amended Paragraph.
BR-2.3.15	01/2020	Amended Paragraph.
BR-1.1.4	01/2022	Amended Paragraph on submission of Forms.
BR-1.1.12	01/2022	Deleted Paragraph.
BR-1.2	01/2022	Deleted Section.
BR-1.4.3	01/2022	Amended Paragraph.
BR-1.4.4	01/2022	Delete Paragraph.
BR-1.4.7	01/2022	Amended Paragraph.
BR-1.4.8	01/2022	Amended Paragraph.
BR-1.4.9	01/2022	Amended Paragraph on submission of the PIIR.
BR-1.4.9A	01/2022	Amended Paragraph on submission of a complaint handling procedures report.
BR-1A.4.2	01/2022	Amended Paragraph on the submission of the written assessment of the observations/issues raised in the Inspection draft report.
BR-1B.4.1	01/2022	Amended Paragraph.

### *Superseded Requirements*

BR-A.2.3 This Module supersedes the following provisions contained in circulars or other regulatory instruments:

Circular/ other reference	Provision	Subject
Circular No. BC/9/99 dated 6 June 1999	All provisions	Quarterly Information Report (QIR).
Circular No. BC/12/2000 dated 10 October 2000	All provisions	Quarterly Information Report (QIR).

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



MODULE	BR:	CBB Reporting
CHAPTER	BR-B:	Scope of Application

## BR-B.1 License Categories

**BR-B.1.1** The content of this Module – unless otherwise stated – applies to all categories of investment firm licensees authorised in the Kingdom.

BR-B.1.2 The effect of BR-B.1.1 is that this Module, unless otherwise stated, applies in full to all investment firm licensees authorised in Bahrain, whether or not the investment firm licensee is incorporated in Bahrain, or else is incorporated in an overseas territory and operates through a branch in the Kingdom.



MODULE	BR:	CBB Reporting
CHAPTER	BR-1:	Prudential Reporting

## BR-1.1 Quarterly Prudential Reporting

**BR-1.1.1** All investment firm licensees must prepare and submit to the CBB a Quarterly Prudential Return ('Form QPR').

BR-1.1.2 A copy of Form QPR is contained in Part B of Volume 4 of the CBB Rulebook. As per the reporting instructions for the Form, Category 1 investment firms and Category 2 investment firms are required to complete all sections of the Form. Category 3 investment firms are required to complete only a subset of the sections of the Form, reflecting their more limited range of activities.

**BR-1.1.3** The Quarterly Prudential Return must be submitted to the CBB within 30 calendar days of each quarter end (as defined in Rule BR-1.3.1).

**BR-1.1.4** For each submission, an electronic 'soft copy' must be submitted to the CBB.

### *Scope of the Quarterly Prudential Return*

**BR-1.1.5** The Quarterly Prudential Return must be submitted using the prescribed Form QPR, as contained in Part B of Volume 4 (Investment Business), together with the required auditor's report only for the quarter ending 30 June (or semi-annually, depending on the licensee's financial year-end).

**BR-1.1.6** The Quarterly Prudential Return must be completed by every investment firm licensee as follows:

- (a) In the case of an investment firm licensee incorporated in Bahrain, the Quarterly Prudential Return must be completed on a consolidated basis, i.e. showing the assets and liabilities of the licensee concerned (including any of its branches, subsidiaries or associates); and
- (b) In the case of an overseas investment firm licensee, the Quarterly Prudential Return must be completed in respect of the investment business booked by the overseas investment firm licensee in the Bahrain branch only.

### *Valuation of Assets and Liabilities*

**BR-1.1.7** Amounts included within the Quarterly Prudential Return must be determined in accordance with the recognition and measurement principles specified by International Financial Reporting Standards.



MODULE	BR:	CBB Reporting
CHAPTER	BR-1:	Prudential Reporting

## BR-1.1 Quarterly Prudential Reporting (continued)

### *Auditor's Report*

**BR-1.1.8** In accordance with Paragraph AA-3.1.1, for Category 1 and Category 2 investment firm licensees, the Quarterly Prudential Returns for the quarter ending 30 June (or semi-annually, depending on the licensee's financial year-end) must be reviewed by the firm's external auditor, unless otherwise exempted in writing by CBB.

BR-1.1.9 The requirement in Rule BR-1.1.8 aims to ensure accuracy and consistency of the financial data presented in Form QPR. Where auditor reviews reveal no material errors in four successive reviews, an exemption from this requirement may be requested. The CBB will normally grant such an exemption, unless it has other supervisory concerns regarding the licensee. However, material reporting errors identified in subsequent Forms QPR may lead to the exemption being withdrawn.

**BR-1.1.10** For the purpose of Rule BR-1.1.8, the time allowed for submission of the Auditor's report is 15 calendar days from the date of submission of the return to the CBB.

### *Preparation and Submission of the Quarterly Prudential Return*

**BR-1.1.11** If the CBB notifies an investment firm licensee that a Form submitted under Rule BR-1.1.1 appears to be inaccurate or incomplete, the investment firm licensee must promptly look into the matter and within 5 business days of the CBB notification (or as otherwise agreed), correct any inaccuracies or make good any omissions, and submit the amended parts of the Quarterly Prudential Return.

**BR-1.1.12** [This Paragraph was deleted in January 2022].

### *Public Disclosure*

BR-1.1.13 Submitted Forms QPR are not public documents and will not be disclosed to third parties by the CBB without the investment firm licensee's consent. However, the CBB may from time to time publish aggregate information derived from such Forms, relating to categories of investment firm licensees or the Bahrain investment business sector as a whole.

BR-1.1.14 Whilst submitted Forms QPR are not public documents, investment firm licensees are not prevented from providing complete copies (including all relevant certifications and reports) to third parties.



<b>MODULE</b>	<b>BR:</b>	<b>CBB Reporting</b>
<b>CHAPTER</b>	<b>BR-1:</b>	<b>Prudential Reporting</b>

**BR-1.2** [This Section was deleted in January 2022]

**BR-1.2.1** [This Paragraph was deleted in January 2022]

**BR-1.2.2** [This Paragraph was deleted in January 2022]

**BR-1.2.3** [This Paragraph was deleted in January 2022]

**BR-1.2.4** [This Paragraph was deleted in January 2022]

**BR-1.2.5** [This Paragraph was deleted in January 2022]

**BR-1.2.6** [This Paragraph was deleted in January 2022]

**BR-1.2.7** [This Paragraph was deleted in January 2022]

**BR-1.2.8** [This Paragraph was deleted in January 2022]

**BR-1.2.9** [This Paragraph was deleted in January 2022]



<b>MODULE</b>	<b>BR:</b>	<b>CBB Reporting</b>
<b>CHAPTER</b>	<b>BR-1:</b>	<b>Prudential Reporting</b>

### BR-1.3 Prudential and Financial Reporting Dates

#### BR-1.3.1

For the purpose of reporting requirements under this Module, the quarter end of an investment firm licensee must be a 3 - month period ending on 31 March, 30 June, 30 September or 31 December.

#### BR-1.3.2

The financial year of an investment firm licensee must be a 12-month period ending on 31 December, except where the firm has obtained the written consent from the CBB for either the period or the period end to be other than 12 months and 31 December respectively. In any event, the financial year can never be less than a 6-month period or greater than an 18-month period.

#### BR-1.3.3

In instances where the financial year end of the parent undertaking is other than 31 December, the investment firm licensee must notify the CBB that its financial year will coincide with that of its parent undertaking.

#### BR-1.3.4

For the purposes of Rules BR-1.3.2 and BR-1.3.3, the CBB would usually accept that the financial year end of a branch to be the same as that of its head office (i.e. the company of which it is part). The CBB may also consider allowing licensees that are part of an overseas group to have a different year end, where imposing a December year-end would cause significant difficulties. Otherwise, the only time that the CBB would be likely to consider allowing an investment firm licensee to adopt a financial period of other than 12 months would be the year in which it is authorised, or when the company's shareholders have themselves approved a change in the reporting period for the purposes of its financial statements.



MODULE	BR:	CBB Reporting
CHAPTER	BR-1:	Prudential Reporting

## BR-1.4 Other Reporting Requirements

### *Reports Prepared by Licensee*

BR-1.4.1

Investment firm licensees must submit, within 3 months of their financial year-end, a report on their controllers (ref. GR-5.1.8 and GR-5.5.3).

BR-1.4.2

Investment firm licensees must submit to the CBB, within 3 months of their financial year-end, a report on their close links (ref. GR-6.1.3).

BR-1.4.3

Investment firm licensees must submit to the CBB, within 6 months of their financial year-end, the annual report of their parent company.

BR-1.4.4

[This Paragraph was deleted in January 2022]

BR-1.4.5

As specified in Article 62 of the CBB Law, an investment firm licensee must submit to the CBB its final audited accounts within 3 months of the licensee's financial year-end. Such accounts should be submitted along with the Management Letter prepared by the Auditors for the financial year.

BR-1.4.5A

In accordance with Paragraph EN-B.4.6, investment firm licensees must disclose the amount of any financial penalties paid to the CBB, together with a factual description of the reason(s) given by the CBB for the penalty. Investment firm licensees which fail to comply with this requirement will be required to make the disclosure in the annual audited financial statements of the subsequent year and will be subject to an enforcement action for non-disclosure.



MODULE	BR:	CBB Reporting
CHAPTER	BR-1:	Prudential Reporting

#### BR-1.4 Other Reporting Requirements (continued)

BR-1.4.6

Investment firm licensees that are listed companies must observe, while complying with Rule BR-1.4.5, all applicable CBB Capital Market and licensed exchange requirements, as updated by the relevant authorities, with respect to their final audited accounts. These other requirements are currently issued separately, in the form of individual directives issued by the CBB's Capital Markets Supervision Directorate and the licensed exchange (ref. UG-A.1.5).

BR-1.4.6A

Bahraini investment firm licensees must submit to the CBB audited financial statements of their subsidiaries within 3 months of the year end of the subsidiary (ref. GR-10.1.8B).

BR-1.4.7

Investment firm licensees must submit the reports referred to in Paragraph FC-4.2.1 **promptly** to the Financial Intelligence Unit at the Ministry of the Interior, and submit a copy of the reports to the CBB's Compliance Directorate (FC-4.2.3).

BR-1.4.8

Investment firm licensees must report any actual or attempted fraud incident (however small) to the **CBB and** appropriate authorities **immediately** (ref. FC-10.1.4). This requirement is applicable to Category 1 and Category 2 investment firm licensees only.

BR-1.4.9

Investment firm licensees must submit a Professional Indemnity Insurance Return (Form PIIR) **within 30 calendar days of each quarter** (ref. GR-9.1.1). This requirement is applicable to Category 2 and Category 3 investment firm licensees only.

BR-1.4.9A

Investment firm licensees must submit to the **Complaints Unit at the CBB** a report summarising the outcome of their complaint handling procedures in accordance with the requirements of Paragraph BC-3.7.1 **within 30 calendar days of each quarter end.**



MODULE	BR:	CBB Reporting
CHAPTER	BR-1:	Prudential Reporting

## BR-1.4 Other Reporting Requirements (continued)

### *Reports Prepared by External Auditors*

BR-1.4.10

[This Paragraph was deleted in July 2012].

BR-1.4.11

Investment firm licensees that hold or control client assets (including where it pools financial instruments held for more than one client) must arrange for their external auditor to report on the licensees' compliance with the requirements contained in Module CL (Client Assets), and submit the report to the CBB within three months of the licensee's financial year end (ref. AA-3.2.1 and CL-1.5.1). This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only. Investment firm licensees which do not hold or control Client Assets are obligated to confirm the same annually.

### *IIS Reporting Requirements*

BR-1.4.12

Investment firm licensees are required to complete online non-financial information related to their institution by accessing the CBB's institutional information system (IIS). Investment firm licensees must update the required information at least on a quarterly basis or when a significant change occurs in the non-financial information included in the IIS. If no information has changed during the quarter, the investment firm licensees must still access the IIS quarterly and confirm the information contained in the IIS. Licensees must ensure that they access the IIS within 20 calendar days from the end of the related quarter and either confirm or update the information contained in the IIS.

BR-1.4.13

Investment firm licensees failing to comply with the requirements of Paragraph BR-1.4.12 or reporting inaccurate information are subject to financial penalties or other enforcement actions as outlined in Module (EN) Enforcement.



MODULE	BR: CBB Reporting
CHAPTER	BR-1A: Prudential Reporting

## BR-1A.4 Onsite Inspection Reporting

**BR-1A.4.1** For the purpose of onsite inspection by the CBB, Investment firm licensees must submit requested documents and completed questionnaires to the Inspection Directorate at the CBB three working days ahead of inspection team entry date.

**BR-1A.4.2** Investment firm licensees must review the contents of the draft Inspection Report and submit to the Inspection Directorate at the CBB a written assessment of the observations/issues raised within **fifteen** working days of receipt of such report. Evidentiary documents supporting management's comments must also be included in the response package.

**BR-1A.4.3** Investment firm licensees' board are required to review the contents of the Inspection Report and submit within one month, of the report issue date, a final response to such report along with an action plan addressing the issues raised within the stipulated timeline.

BR-1A.4.4 Investment firm licensees failing to comply with the requirements of Paragraphs BR-1A.4.1 and BR-1A.4.2 are subject to date sensitive requirements and other enforcement actions as outlined in Module (EN) Enforcement.



MODULE	BR: CBB Reporting
CHAPTER	BR-1B: Prudential Reporting

## BR-1B.4 Report on Private Placements

### BR-1B.4.1

When acting as an issuer, promoter or manager of a private placement of securities (excluding CIUs), Investment firm licensees must provide on a semi-annual basis to investors and the CBB a progress report on the private placement. The semi-annual reports are to be provided as of 30th June and 31st December and must be submitted to the investors and the CBB within three months of the reporting period. This requirement is applicable to Category 1 investment firm licensees and Category 2 investment firm licensees only.

### BR-1B.4.2

The reports referred to in Paragraph BR-1B.4.1 are to be issued for all PPMs issued or distributed for the purpose of solicitation of funds from investors.

### BR-1B.4.3

The requirements for the report on private placements are in addition to any requirements outlined in Module OFS (Offering of Securities) under Volume 6 (Capital Markets).

### BR-1B.4.4

Investment firm licensees may opt to issue the required report on a more frequent basis.

### BR-1B.4.5

The report required under Paragraph BR-1B.4.1 must be issued for private equity purchases of existing companies, as well as for real estate and other projects under development (in coordination with the real estate developer), and must follow the requirements of Appendix BR-2 under Part B of Volume 4.

### BR-1B.4.6

Investment firm licensees which do not act as issuers, promoters or managers for PPMs, and therefore are not subject to the reporting requirement under Rule BR-1B.4.1, are obligated to confirm the same to the CBB on a semi-annual basis, within the deadline stipulated in Rule BR-1B.4.1.



MODULE	BR:	CBB Reporting
CHAPTER	BR-2:	Notifications and Approvals

## BR-2.1 Introduction

**BR-2.1.1** All notifications and approvals required in this Chapter are to be submitted by investment firm licensees in writing.

BR-2.1.2 In this Module, the term 'in writing' includes electronic communication capable of being reproduced in paper form.

**BR-2.1.3** An investment firm licensee must make the notifications and approvals required in Chapter BR-2 immediately it becomes aware, or has information which reasonably suggests, that any of the matters in Chapter BR-2 have occurred, may have occurred or may occur in the near future.

**BR-2.1.4** The requirements imposed on investment firm licensees under this Chapter apply whether the event relates to a matter that has occurred in Bahrain or in any other jurisdiction.

BR-2.1.5 Investment firm licensees are required to provide the CBB with a range of information to enable it to monitor the investment firm licensee's compliance with Volume 4 of the CBB Rulebook. Some of this information is provided through regular reports, whereas others are in response to the occurrence of a particular event (such as a change in name or address). The following lists the commonly occurring reports for which an investment firm licensee will be required to notify the CBB or seek its approval.



MODULE	BR: CBB Reporting
CHAPTER	BR-2: Notifications and Approvals

## BR-2.2 Notification Requirements

### *Matters Having a Serious Supervisory Impact*

#### BR-2.2.1

An investment firm licensee must notify the CBB if any of the following has occurred, may have occurred or may occur in the near future:

- (a) The investment firm licensee failing to satisfy one or more of the Principles of Business referred to in Module PB;
- (b) Any matter which could have a significant adverse impact on the investment firm licensee's reputation;
- (c) Any matter which could affect the investment firm licensee's ability to continue to provide adequate services to its customers and which could result in serious detriment to a customer of the investment firm licensee;
- (d) Any matter in respect of the investment firm licensee that could result in material financial consequences to the financial system or to other investment firm licensees;
- (e) Any breach of any provision of the Rulebook (including a Principle);
- (f) A breach of any requirement imposed by the relevant law or by regulations or an order made under any relevant law by the CBB; or
- (g) If an investment firm licensee becomes aware, or has information that reasonably suggests that it has or may have provided the CBB with information that was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material way, it must notify the CBB immediately (ref. BR-3.3.2).

#### BR-2.2.2

The circumstances that may give rise to any of the events in Paragraph BR-2.2.1 are wide-ranging and the probability of any matter resulting in such an outcome, and the severity of the outcome, may be difficult to determine. However, the CBB expects investment firm licensees to consider properly all potential consequences of events.

#### BR-2.2.3

In determining whether an event that may occur in the near future should be notified to the CBB, an investment firm licensee should consider both the probability of the event happening and the severity of the outcome should it happen. Matters having a supervisory impact could also include matters relating to a parent undertaking or controller that may indirectly have an effect on the investment firm licensee.



MODULE	BR:	CBB Reporting
CHAPTER	BR-2:	Notifications and Approvals

## BR-2.2 Notification Requirements (continued)

### *Legal, Professional, Administrative or other Proceedings Against an Investment Firm Licensee*

#### BR-2.2.4

An investment firm licensee must notify the CBB immediately of any legal, professional or administrative or other proceedings instituted against the investment firm licensee, controller or a close link including a parent undertaking of the investment firm licensee that is known to the investment firm licensee and is significant in relation to the investment firm licensee's financial resources or its reputation.

#### BR-2.2.5

An investment firm licensee must notify the CBB of the bringing of a prosecution for, or conviction of, any offence under any relevant law against the investment firm licensee that would prevent the investment firm licensee from meeting the Principles or Business (Module PB) or any of its Directors, officers or approved persons from meeting the fit and proper requirements of Module AU.

### *Fraud, Errors and other Irregularities*

#### BR-2.2.6

An investment firm licensee must notify its supervisory point of contact, and in cases of fraud the Compliance Directorate at the CBB immediately if one of the following events arises and the event is significant:

- (a) It becomes aware that an employee may have committed a fraud against one of its customers;
- (b) It becomes aware that a person, whether or not employed by it, is acting with intent to commit fraud against it;
- (c) It identifies irregularities in its accounting or other records, whether or not there is evidence of fraud;
- (d) It suspects that one of its employees may be guilty of serious misconduct concerning his honesty or integrity and which is connected with the investment firm licensee's regulated or ancillary activities; or
- (e) Significant conflicts of interest.

### *Meaning of the Term "significant"*

#### BR-2.2.7

For the purposes of this chapter, in determining whether a matter is significant, an investment firm licensee should have regard to:

- (a) The size of any monetary loss or potential monetary loss to itself or its customers (either in terms of a single incident or group of similar or related incidents);



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## BR-2.2 Notification Requirements (continued)

BR-2.2.7 cont'd

- (b) The risk of reputational loss to the investment firm licensee; and
- (c) Whether the incident or a pattern of incidents reflects weaknesses in the investment firm licensee's internal controls.

BR-2.2.8

In addition, if the investment firm licensee may have suffered significant financial losses as a result of the incident, or may suffer reputational loss, the CBB will wish to consider this and whether the incident suggests weaknesses in the investment firm licensee's internal controls.

### *Insolvency, Bankruptcy and Winding Up*

BR-2.2.9

Except in instances where the CBB has initiated the following actions, an investment firm licensee must notify the CBB immediately of any of the following events:

- (a) The calling of a meeting to consider a resolution for winding up the investment firm licensee, a controller or close link, including a parent undertaking of the investment firm licensee;
- (b) An application to dissolve a controller or close link, including a parent undertaking of the investment firm licensee or to strike the investment firm licensee off the Register of Investment Business Companies;
- (c) The presentation of a petition for the winding up of a controller or close link, including a parent undertaking of the investment firm licensee;
- (d) The making of any proposals, or the making of, a composition or arrangement with any one or more of the investment firm licensee's creditors, for material amounts of debt;
- (e) An application for the appointment of an administrator or trustee in bankruptcy to a controller or close link, including a parent undertaking of the investment firm licensee;
- (f) The appointment of a receiver to a controller or close link, including a parent undertaking of the investment firm licensee (whether an administrative receiver or a receiver appointed over particular property); or
- (g) An application for an interim order against the investment firm licensee, a controller or close link, including a parent undertaking of the investment firm licensee under the Bankruptcy and Composition Law of 1987 or similar legislation in another jurisdiction.



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## BR-2.2 Notification Requirements (continued)

### *Other Supervisors*

**BR-2.2.10** An investment firm licensee must notify the CBB immediately if it becomes subject to or ceases to be subject to the supervision of any overseas supervisor (including a home supervisor).

BR-2.2.11 The supervisory regime and any legislative or foreign provisions to which that investment firm licensee, including its branches, is subject, influence the CBB's approach to the supervision of the investment firm licensee.

### *Carrying out Business in Another Jurisdiction*

**BR-2.2.12** Where another jurisdiction's laws or regulations prevent a licensee (or any of its foreign branches or subsidiaries) from applying the same standards contained in Module FC (Financial Crime) or higher, the licensee must immediately inform the CBB in writing (ref. FC-B.2.2).

**BR-2.2.13** Where conduct of business standards applied by overseas branches and subsidiaries of an investment firm licensee fall below the standards set out in Module BC (Business Conduct), the investment firm licensee must notify the CBB of the fact (ref. BC-B.1.5).

**BR-2.2.14** Where client asset rules applied by overseas branches and subsidiaries of an investment firm licensee fall below the standards set out in Module CL (Client Assets), the investment firm licensee must notify the CBB of the fact (ref. CL-B.2.2).

### *External Auditor*

**BR-2.2.15** An investment firm licensee must notify the CBB of the following:  
(a) Removal or resignation of auditor (ref. AA-1.2.1); or  
(b) Change in audit partner (ref. AA-1.3.2).

### *Approved Persons*

**BR-2.2.16** An investment firm licensee must notify the CBB of the termination of employment of approved persons, including particulars of reasons for the termination and arrangements with regard to replacement (ref. AU-5.2.8 and AU-5.5.5).



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## BR-2.2 Notification Requirements (continued)

### *Capital Adequacy*

BR-2.2.17

In the event that an investment firm licensee fails to meet any of the requirements specified in Module CA (Capital Adequacy), it must, on becoming aware that it has breached the requirements, immediately notify the CBB in writing (ref. CA-1.1.5).

BR-2.2.18

Category 1 investment firms and Category 2 investment firms must notify the CBB if:

- (a) The ratio of Regulatory Capital to their Regulatory Capital Requirement falls below 110%;
- (b) Any single probable contingency, financial commitment or large exposure exceeds 25% of their Regulatory Capital; and
- (c) Any instrument, transaction or situation does not appear to be catered for under Module CA (ref. CA-1.2.9).

BR-2.2.19

An investment firm licensee shall notify the CBB if it has counterparty exposures in repurchase and reverse repo transactions, including sale and buy back and securities lending (ref. CA-3.3.1). This requirement is applicable to Category 1 investment firms and Category 2 investment firm licensees only.

BR-2.2.20

An investment firm licensee shall notify the CBB if it has counterparty exposures in swaps, forward contracts, over the counter options, contracts for differences and off-exchange futures (ref. CA-3.3.1). This requirement is applicable to Category 1 investment firms and Category 2 investment firm licensees only.

BR-2.2.21

As specified in Article 58 of the CBB Law, an investment firm licensee must notify the CBB immediately of any matter that may affect its financial position, currently or in the future, or limit its ability to meet its obligations.

### *Outsourcing Arrangements*

BR-2.2.22

Investment firm licensees must immediately inform their direct supervisory contact at the CBB of any material problems encountered with an outsourcing provider (ref. RM-7.1.11).



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## BR-2.2 Notification Requirements (continued)

### *Controllers*

BR-2.2.23

If, as a result of circumstances outside the Bahraini investment firm licensee's knowledge and/or control, one of the changes to their controllers specified in Paragraph GR-5.1.1 is triggered prior to CBB approval being sought or obtained, the Bahraini investment firm licensee must notify the CBB no later than 15 calendar days from the date on which those changes occurred (ref. GR-5.1.5).

BR-2.2.23A

Overseas investment firm licensees must notify the CBB of any new significant ownership in excess of 50% of the issued and paid up capital of the concerned licensee's direct parent undertaking as soon as the licensee becomes aware of the change (see Paragraph GR-5.5.1).

BR-2.2.24

As specified in Article 52 of the CBB Law, an investment firm licensee must notify the CBB of the following events:

- (a) If effective control over a licensee takes place indirectly whether by way of inheritance or otherwise.
- (b) Gaining control directly as a result of any action leading to it.
- (c) The intention to take any of the actions that would lead to control.

### *Registered Address*

BR-2.2.25

An investment firm licensee must notify the CBB of a change in the address of its registered office (or its head office in the case of a branch of an overseas investment firm licensee).

### *Appointed Representatives*

BR-2.2.26

[This Paragraph was deleted in October 2013]



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## BR-2.3 Approval Requirements

### *Change in Name*

#### BR-2.3.1

In accordance with Paragraph GR-2.1.1, an investment firm licensee must seek prior written approval from the CBB and give reasonable advance notice of a change in:

- (a) The investment firm licensee's name (which is the registered name if the investment firm licensee is a body corporate); or
- (b) The investment firm licensee's trade name, and that of its subsidiaries located in Bahrain (ref. GR-2.1.1).

#### BR-2.3.2

The request under Paragraph BR-2.3.1 must include the details of the proposed new name and the date on which the investment firm licensee intends to implement the change of name.

### *Change of Address*

#### BR-2.3.3

As specified in Article 51 of the CBB Law, an investment firm licensee must seek approval from the CBB and give reasonable advance notice of a change in the address of the investment firm licensee's principal place of business in Bahrain.

#### BR-2.3.4

The request under Paragraph BR-2.3.3 must include the details of the proposed new address and the date on which the investment firm licensee intends to implement the change of address.

#### BR-2.3.5

As specified in Article 51 of the CBB Law, an investment firm licensee must seek approval from the CBB for its intention to carry on its business from new premises in Bahrain. This requirement applies whether or not the premises are to be used for the purposes of transacting business with customers, administration of the business or as the head office in Bahrain of the investment firm licensee.

#### BR-2.3.6

[This Paragraph was deleted in October 2013]



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## BR-2.3 Approval Requirements (continued)

### *Change in Legal Status*

**BR-2.3.7** An investment firm licensee must seek CBB approval and give reasonable advance notice of a change in its legal status that may, in any way, affect its relationship with or limit its liability to its customers.

### *Change in Authorised or Issued Capital*

**BR-2.3.8** As specified in Article 57(3) of the CBB Law, an investment firm licensee must seek CBB approval before making any modification to its authorised or issued capital. In the case that an investment firm licensee has been granted approval to increase its paid-up capital, confirmation from the external auditor stating that the amount has been deposited in the licensee's bank account or otherwise reflected in the licensee's accounts will subsequently be required.

### *Client Asset Transfers*

**BR-2.3.9** In accordance with Chapter GR-4, investment firm licensees must seek prior written approval from the CBB before transferring client assets to a third party, in circumstances other than when acting on instructions from the client concerned. This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

### *Controllers and Close Links*

**BR-2.3.10** In accordance with Chapter GR-5, Bahraini investment firm licensees must seek CBB approval and give reasonable advance notice of any of the following events concerning the investment firm licensee:

- (a) A person acquiring control or ceasing to have control;
- (b) An existing controller acquiring an additional type of control (such as ownership or significant influence) or ceasing to have a type of control;
- (c) An existing controller increasing his or her percentage in the issued and paid up capital or voting power beyond 10%, 20%, 30% or 40%; and
- (d) An existing controller becoming or ceasing to be a parent undertaking.

BR-2.3.11 Every investment firm licensee authorised in Bahrain is required to submit an annual report on its controllers, as per Paragraphs GR-5.1.8 and GR-5.5.3, and close links as set out in Paragraph GR-6.1.3.



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## BR-2.3 Approval Requirements (continued)

### *Carrying out Business in Another Jurisdiction*

#### BR-2.3.12

An investment firm licensee must seek CBB approval and give three months' notice of its intention to undertake investment business activities in a jurisdiction other than Bahrain prior to commencing that business and where the effect of commencing that business may have a significant impact on:

- (a) The investment firm licensee's business in Bahrain; or
- (b) The capital resources of the investment firm licensee.

#### BR-2.3.13

Rule BR-2.3.12 applies whether or not the investment firm licensee is required to be regulated locally in the jurisdiction where it proposes to undertake the investment business.

#### BR-2.3.14

The CBB will use this information to consider whether or not it should refuse its approval or impose additional requirements on the licensee.

### *Mergers, Acquisitions, Disposals and Establishment of New Subsidiaries*

#### BR-2.3.15

A Bahraini investment firm licensee incorporated in Bahrain must seek CBB approval and give reasonable advance notice of its intention to:

- (a) Enter into a merger with another undertaking;
- (b) Enter into a proposed acquisition, disposal or establishment of a new subsidiary undertaking; or
- (c) Open a new place of business as a subsidiary undertaking, a branch or a representative office within the Kingdom of Bahrain or other jurisdiction.

#### BR-2.3.16

In order to comply with requirements of Paragraph BR-2.3.15, investment firm licensees should refer to the requirements of Chapter GR-10.

#### BR-2.3.17

[This Paragraph was moved to GR-10.1.5].



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### BR-2.3 Approval Requirements (continued)

#### *Share Option Schemes*

**BR-2.3.18** An investment firm licensee must seek prior approval from the CBB for any share option schemes it proposes to offer to its employees.

#### *Outsourcing Arrangements*

**BR-2.3.19** An investment firm licensee must seek prior approval from the CBB for the following:

- (a) Outsourcing of their internal audit function (ref. HC-6.4.4 and RM-7.4)
- (b) Material intra-group outsourcing (ref. RM-7.3.3); or
- (c) Outsourcing other material functions (RM-7.1).

#### *Matters Having a Serious Supervisory Impact*

**BR-2.3.20** An investment firm licensee must seek prior approval from the CBB for any material changes or proposed changes to the information provided to the CBB in support of an authorisation application that occurs after authorisation has been granted.

**BR-2.3.21** Any licensee that wishes, intends or has been requested to do anything that might contravene, in its reasonable opinion, the provisions of UNSCR 1373 (and in particular Article 1, Paragraphs c) and d) of UNSCR 1373) must seek, in writing, the prior written opinion of the CBB on the matter (ref. FC-7.2.2).

**BR-2.3.22** As specified in Article 57 of the CBB Law, an investment firm licensee wishing to modify its Memorandum or Articles of Association, must obtain prior written approval from the CBB.

**BR-2.3.23** As specified in Article 57 of the CBB Law, an investment firm licensee wishing to transfer all or a major part of its assets or liabilities inside or outside the Kingdom, must obtain prior written approval from the CBB.



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### BR-2.3 Approval Requirements (continued)

#### *Capital Adequacy*

**BR-2.3.24** Bahraini investment firm licensees, must obtain a letter of no-objection from the CBB to any dividend proposed, before submitting a proposal for a distribution of profits to a shareholder vote (ref. GR-3.1.1). This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

**BR-2.3.25** An investment firm licensee must not redeem any Tier 1 instrument that it has included in its Regulatory Capital for the purpose of satisfying its Regulatory Capital Requirement without the prior written approval of the CBB (ref. CA-2.1.7).

**BR-2.3.26** No value, for Regulatory Capital purposes, may be attributed to any other instrument or resource, without the CBB's written consent (ref. CA-2.1.12).

**BR-2.3.27** Exceptional items of expenditure may also be excluded from relevant annual expenditure, as defined in Rule CA-3.1.2, subject to prior CBB written approval (ref. CA-3.1.2). This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

**BR-2.3.27A** Should an investment firm licensee need to inject additional working capital and does so by way of a subordinated loan from its shareholders, it must receive CBB's prior approval to do so (ref. CA-1.1.5A).

**BR-2.3.27B** Investment firm licensees must seek the CBB's prior written approval before settling a subordinated loan made by its shareholders, either fully or partially, prior to the end of its term (see Paragraph CA-1.1.5A).



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### BR-2.3 Approval Requirements (continued)

#### *Licensed Regulated Services*

**BR-2.3.28** Investment firm licensees must seek prior CBB approval before undertaking new activities (ref. Article 48 of the CBB Law and AU-5.4.1).

**BR-2.3.29** As specified in Article 50 of the CBB Law, an investment firm licensee wishing to cease to provide all or any of its licensed regulated services, completely or at any of its branches, must obtain prior written approval from the CBB (ref. AU-5.5.1 and Section GR-7.1).

**BR-2.3.30** Investment firm licensees must seek prior CBB approval before starting to undertake derivative transactions (ref. RM-6.1.1). This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

**BR-2.3.31** An investment firm licensee must not undertake or otherwise engage in stock lending activity with or for a client unless the investment firm licensee has obtained the consent of the CBB and the client (ref. CL-1.2.1). This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

#### *Private Placement of Securities*

**BR-2.3.32** All Private Placement Memorandums (PPMs) relating to the issue of financial instruments by investment firm licensees, with the exception of those made under Collective Investment Undertakings arrangements (which are covered under Volume 7 (CIU) of the CBB Rulebook), must obtain the CBB's prior approval before distributing the offering document. This requirement is applicable to Category 1 investment firm and Category 2 investment firm licensees only.

BR-2.3.33 Investment firm licensees are required to obtain the approval required under Rule BR-2.3.32 above from the Capital Markets Supervision Directorate at the CBB and simultaneously notify the Financial Institutions Supervision Directorate of the same. The request must be supported by a draft proposal for private placements and addressed to the Director of Capital Markets Supervision Directorate and must be in line with the requirements of Module OFS (Offering of Securities) under Volume 6 of the CBB Rulebook.



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### BR-2.3 Approval Requirements (continued)

#### *External Auditor*

**BR-2.3.34** An investment firm licensee must seek prior approval from the CBB for the appointment or re-appointment of its external auditor (ref. AU-2.7.1 and AA-1.1.1).

#### *Approved Persons*

**BR-2.3.35** An investment firm licensee must seek prior approval from the CBB for the appointment of persons undertaking a controlled function in an investment firm licensee (ref. Article 65 of the CBB Law, AU-1.2 and AU-5.2.1).

**BR-2.3.36** Investment firm licensees must seek prior CBB approval before an approved person may move from one controlled function to another within the same licensee (ref. AU-5.4.5).

**BR-2.3.37** If a controlled function falls vacant, an investment firm licensee making immediate interim arrangements for the controlled function affected, must obtain approval from the CBB for such arrangement (ref. AU-5.5.5).



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## BR-3.1 Power to Request Information

**BR-3.1.1** Investment firm licensees must provide all information that the CBB may reasonably request in order to discharge its regulatory obligations.

**BR-3.1.1A** Investment firm licensees must provide all relevant information and assistance to the CBB inspectors and appointed experts on demand as required by Articles 111 and 114 of the CBB Law. Failure by investment firm licensees to cooperate fully with the CBB's inspectors or appointed experts, or to respond to their examination reports within the time limits specified, will be treated as demonstrating a material lack of cooperation with the CBB which will result in other enforcement measures being considered, as described elsewhere in Module EN. This rule is supported by Article 114(a) of the CBB Law.

BR-3.1.1B Article 163 of the CBB Law provides for criminal sanctions where false or misleading statements are made to the CBB or any person /appointed expert appointed by the CBB to conduct an inspection or investigation on the business of the investment firm licensee or the listed licensee.

### *Information Requested on Behalf of other Supervisors*

BR-3.1.2 The CBB may ask an investment firm licensee to provide it with information at the request of or on behalf of other supervisors to enable them to discharge their functions properly. Those supervisors may include overseas supervisors or government agencies in Bahrain. The CBB may also, without notifying an investment firm licensee, pass on to those supervisors or agencies information that it already has in its possession.



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## BR-3.2 Access to Premises

**BR-3.2.1** An investment business licensee must permit representatives of the CBB, or persons appointed for the purpose by the CBB to have access, with or without notice, during reasonable business hours to any of its business premises in relation to the discharge of the CBB's functions under the relevant law.

**BR-3.2.2** An investment business licensee must take reasonable steps to ensure that its agents and providers under outsourcing arrangements permit such access to their business premises, to the CBB.

**BR-3.2.3** An investment business licensee must take reasonable steps to ensure that each of its providers under material outsourcing arrangements deals in an open and cooperative way with the CBB in the discharge of its functions in relation to the investment business licensee.

BR-3.2.4 The cooperation that investment firm licensees are expected to procure from such providers is similar to that expected of investment firm licensees themselves.



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### BR-3.3 Accuracy of Information

**BR-3.3.1** Investment firm licensees must take reasonable steps to ensure that all information they give to the CBB is:

- (a) Factually accurate or, in the case of estimates and judgements, fairly and properly based after appropriate enquiries have been made by the investment firm licensee; and
- (b) Complete, in that it should include everything which the CBB would reasonably and ordinarily expect to have.

**BR-3.3.2** If an investment firm licensee becomes aware, or has information that reasonably suggests that it has or may have provided the CBB with information that was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material way, it must notify the CBB immediately. The notification must include:

- (a) Details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;
- (b) An explanation why such information was or may have been provided; and
- (c) The correct information.

**BR-3.3.3** If the information in Paragraph BR-3.3.2 cannot be submitted with the notification (because it is not immediately available), it must instead be submitted as soon as possible afterwards.



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## BR-3.4 Methods of Information Gathering

BR-3.4.1 The CBB uses various methods of information gathering on its own initiative which require the cooperation of investment firm licensees:

- (a) Representatives of the CBB may make onsite visits at the premises of the investment firm licensee. These visits may be made on a regular basis, or on a sample basis, for special purposes such as theme visits (looking at a particular issue across a range of investment firm licensees), or when the CBB has a particular reason for visiting an investment firm licensee;
- (b) Appointees of the CBB may also make onsite visits at the premises of the investment firm licensee. Appointees of the CBB may include persons who are not CBB staff, but who have been appointed to undertake particular monitoring activities for the CBB, such as in the case of Appointed Experts (refer to Section BR-3.5).
- (c) The CBB may request the investment firm licensee to attend meetings at the CBB's premises or elsewhere;
- (d) The CBB may seek information or request documents by telephone, at meetings or in writing, including electronic communication;
- (e) The CBB may require investment firm licensees to submit various documents or notifications, as per Chapter BR-2, in the ordinary course of their business such as financial reports or on the happening of a particular event in relation to the investment firm licensee such as a change in control.

BR-3.4.2 When seeking meetings with an investment firm licensee or access to the licensee's premises, the CBB or the CBB appointee needs to have access to an investment firm licensee's documents and personnel. Such requests will be made during reasonable business hours and with proper notice. There may be instances where the CBB may seek access to the licensee's premises without prior notice. While such visits are not common, the prospect of unannounced visits is intended to encourage investment firm licensees to comply at all times with the requirements and standards imposed by the CBB as per legislation and Volume 4 of the CBB Rulebook.

BR-3.4.3 The CBB considers that an investment firm licensee should:

- (a) Make itself readily available for meetings with representatives or appointees of the CBB;
- (b) Give representatives or appointees of the CBB reasonable access to any records, files, tapes or computer systems, which are within the investment firm licensee's possession or control, and provide any facilities which the representatives or appointees may reasonably request;
- (c) Produce to representatives or appointees of the CBB specified documents, files, tapes, computer data or other material in the investment firm licensee's possession or control as may be reasonably requested;



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### **BR-3.4 Methods of Information Gathering (continued)**

- BR-3.4.3 (d) Print information in the investment firm licensee's possession or control which is held on computer or otherwise convert it into a readily legible document or any other record which the CBB may reasonably request;
- (e) Permit representatives or appointees of the CBB to copy documents of other material on the premises of the investment firm licensee at the investment firm licensee's expense and to remove copies and hold them elsewhere, or provide any copies, as may be reasonably requested; and
- (f) Answer truthfully, fully and promptly all questions which representatives or appointees of the CBB reasonably put to it.
- BR-3.4.4 The CBB considers that an investment firm licensee should take reasonable steps to ensure that the following persons act in the manner set out in Paragraph BR-3.4.3:
- (a) Its employees; and
- (b) Any other members of its group and their employees.
- BR-3.4.5 In gathering information to fulfill its supervisory duties, the CBB acts in a professional manner and with due regard to maintaining confidential information obtained during the course of its information gathering activities.



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## BR-3.5 Role of the Appointed Expert

### *Introduction*

- BR-3.5.1** The content of this Chapter is applicable to all investment firm licensees and appointed experts.
- BR-3.5.2 The purpose of the contents of this Chapter is to set out the roles and responsibilities of appointed experts when appointed pursuant to Article 114 or 121 of the CBB Law (see EN-2.1.1). These Articles empower the CBB to assign some of its officials or others to inspect or conduct investigations of investment firm licensees.
- BR-3.5.3 The CBB uses its own inspectors to undertake on-site examinations of licensees as an integral part of its regular supervisory efforts. In addition, the CBB may commission reports on matters relating to the business of licensees in order to help it assess their compliance with CBB requirements. Inspections may be carried out either by the CBB's own officials, by duly qualified appointed experts appointed for the purpose by the CBB, or a combination of the two.
- BR-3.5.4 The CBB will not, as a matter of general policy, publicise the appointment of an appointed expert, although it reserves the right to do so where this would help achieve its supervisory objectives. Both the appointed expert and the CBB are bound to confidentiality provisions restricting the disclosure of confidential information with regards to any such information obtained in the course of the investigation.
- BR-3.5.5** Unless the CBB otherwise permits, appointed experts should not be the same firm appointed as external auditor of the investment firm licensee.
- BR-3.5.6** Appointed experts will be appointed in writing, through an appointment letter, by the CBB. In each case, the CBB will decide on the range, scope and frequency of work to be carried out by appointed experts.
- BR-3.5.7 All proposals to appoint appointed experts require approval by an Executive Director or more senior official of the CBB. The appointment will be made in writing, and made directly with the appointed experts concerned. A separate letter is sent to the licensee, notifying them of the appointment. At the CBB's discretion, a trilateral meeting may be held at any point, involving the CBB and representatives of the licensee and the appointed experts, to discuss any aspect of the investigation.
- BR-3.5.8 Following the completion of the investigation, the CBB will normally provide feedback on the findings of the investigation to the licensee.



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## BR-3.5 Role of the Appointed Expert (continued)

**BR-3.5.9** Appointed experts will report directly to and be responsible to the CBB in this context and will specify in their report any limitations placed on them in completing their work (for example due to the licensee's group structure). The report produced by the appointed experts is the property of the CBB (but is usually shared by the CBB with the firm concerned).

**BR-3.5.10** Compliance by appointed experts with the contents of this Chapter will not, of itself, constitute a breach of any other duty owed by them to a particular investment firm licensee (i.e. create a conflict of interest).

BR-3.5.11 The CBB may appoint one or more of its officials to work on the appointed experts' team for a particular investment firm licensee.

### *The Required Report*

**BR-3.5.12** The scope of the required report will be determined and detailed by the CBB in the appointment letter. Commissioned appointed experts would normally be required to report on one or more of the following aspects of a licensee's business:

- (a) Accounting and other records;
- (b) Internal control systems;
- (c) Returns of information provided to the CBB;
- (d) Operations of certain departments; and/or
- (e) Other matters specified by the CBB.

**BR-3.5.13** Appointed experts will be required to form an opinion on whether, during the period examined, the licensee is in compliance with the relevant provisions of the CBB Law and the CBB's relevant requirements, as well as other requirements of Bahrain Law and, where relevant, industry best practice locally and/or internationally.

BR-3.5.14 The appointed experts' report should follow the format set out in Appendix BR-1, in part B of the CBB Rulebook.

**BR-3.5.15** Unless otherwise directed by the CBB or unless the circumstances described in Section BR-3.5.19 apply, the report must be discussed with the Board of directors and/or senior management in advance of it being sent to the CBB.



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### BR-3.5 Role of the Appointed Expert (continued)

**BR-3.5.16** Where the report is qualified by exception, the report must clearly set out the risks which the licensee runs by not correcting the weakness, with an indication of the severity of the weakness should it not be corrected. Appointed experts will be expected to report on the type, nature and extent of any weaknesses found during their work, as well as the implications of a failure to address and resolve such weaknesses.

**BR-3.5.17** If the appointed experts conclude, after discussing the matter with the licensee, that they will give a negative opinion (as opposed to one qualified by exception) or that the issue of the report will be delayed, they must immediately inform the CBB in writing giving an explanation in this regard.

**BR-3.5.18** The report must be completed, dated and submitted, together with any comments by directors or management (including any proposed timeframe within which the licensee has committed to resolving any issues highlighted by the report), to the CBB within the timeframe applicable.

#### *Other Notifications to the CBB*

**BR-3.5.19** Appointed experts must communicate to the CBB, during the conduct of their duties, any reasonable belief or concern they may have that any of the requirements of the CBB, including the criteria for licensing a licensee (see Module AU), are not or have not been fulfilled, or that there has been a material loss or there exists a significant risk of material loss in the concerned licensee, or that the interests of customers are at risk because of adverse changes in the financial position or in the management or other resources of a licensee. Notwithstanding the above, it is primarily the licensee's responsibility to report such matters to the CBB.

BR-3.5.20 The CBB recognises that appointed experts cannot be expected to be aware of all circumstances which, had they known of them, would have led them to make a communication to the CBB as outlined above. It is only when appointed experts, in carrying out their duties, become aware of such a circumstance that they should make detailed inquiries with the above specific duty in mind.

BR-3.5.21 If appointed experts decide to communicate directly with the CBB in the circumstances set out in Paragraph BR-3.5.19, they may wish to consider whether the matter should be reported at an appropriate senior level in the licensee at the same time and whether an appropriate senior representative of the licensee should be invited to attend the meeting with the CBB.



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## BR-3.5 Role of the Appointed Expert (continued)

### *Permitted Disclosure by the CBB*

#### BR-3.5.22

Information which is confidential and has been obtained under, or for the purposes of, this chapter or the CBB Law may only be disclosed by the CBB in the circumstances permitted under the Law. This will allow the CBB to disclose information to appointed experts to fulfil their duties. It should be noted, however, that appointed experts must keep this information confidential and not divulge it to a third party except with the CBB's permission and/or unless required by Bahrain Law.

### *Trilateral Meeting*

#### BR-3.5.23

The CBB may, at its discretion, call for a trilateral meeting(s) to be held between the CBB and representatives of the relevant investment firm licensee and the appointed experts. This meeting will provide an opportunity to discuss the appointed experts' examination of, and report on, the investment firm licensee.