



# **CATEGORY 4 INVESTMENT FIRMS MODULE**



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MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-A: Introduction

## C4-A.1 Purpose and Scope

C4-A.1.1 This Module sets out the Central Bank of Bahrain's (CBB) regulations for category 4 investment firms offering regulated investment services in the Kingdom of Bahrain. Category 4 investment firms are subject to the provisions of this Module and the following modules of CBB Rulebook Volume 4:

- (a) Authorisation Module (AU Module);
- (b) Principles of Business Module (PB Module);
- (c) Financial Crime Module (FC Module); and
- (d) Enforcement Module (EN Module).

C4-A.1.2 Persons who operate/manage a collective investment undertaking (CIU) within or from the Kingdom of Bahrain and are not otherwise licensed by CBB as a bank, a category 1 investment firm, or a category 2 investment firm are required to be licensed by CBB as category 4 investment firm.

C4-A.1.3 Category 4 investment firms are operators of CIUs targeted at accredited investors i.e. exempt CIUs, venture capital CIUs or private investment undertakings (PIU). Moreover, category 4 investment firms can provide the regulated service of safeguarding financial instruments (i.e. act as custodian) of the venture capital CIUs they operate/manage.

C4-A.1.4 Locally incorporated category 4 investment firms are called Bahraini category 4 investment firms. Investment firms that are incorporated in an overseas jurisdiction and operate via a 'branch' presence in the Kingdom of Bahrain are called overseas investment firms.

C4-A.1.5 Persons undertaking certain functions in relation to category 4 investment firms require prior CBB approval. These functions (called 'controlled functions') include directors and members of senior management. The controlled functions requirements supplement the licensing requirements by ensuring that key persons involved in the running of category 4 investment firms are fit and proper. Those authorised by the CBB to undertake controlled functions are called approved persons.

### *Legal Basis*

#### C4-A.1.6

This Module contains the CBB's Directive, Regulation and Resolutions (as amended from time to time) applicable to category 4 investment firms under Volume 4 of the CBB Rulebook. It 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 includes the requirements contained in Resolution No (1) of 2007 with respect to determining fees categories due for licensees and services provided by the CBB, Regulation No (1) of 2007 pertaining to the CBB's regulated services issued under Article 39 of the CBB Law and contains requirements governing the 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.



<b>MODULE</b>	<b>C4:</b>	<b>Category 4 Investment Firms</b>
<b>CHAPTER</b>	<b>C4-A:</b>	<b>Introduction</b>

## C4-A.2 Module History

### *Evolution of Module*

C4-A.2.1 This Module was first issued in September 2021 as part of Volume 4 (Investment Business). 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.

C4-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Authorisation Requirements

## C4-1.1 Licensing Conditions

### *Legal Status*

#### C4-1.1.1

The legal form of a category 4 investment firm must be:

- (i) A Bahraini joint stock company (BSC); or
- (ii) A branch resident in Bahrain of an operator of CIUs domiciled in an overseas jurisdiction and authorised to carry out such activity in that jurisdiction.

#### C4-1.1.2

Where the category 4 investment firm is a branch of an overseas investment firm, an application for licensing will be considered after extensive enquiries into the firm's shareholders, management structure, financial position, its activities and how these activities are regulated.

### *Mind and Management*

#### C4-1.1.3

Category 4 investment firms must maintain their head office in the Kingdom. Overseas category 4 investment firms must maintain local management presence and premises in the Kingdom appropriate to the nature and scale of their activities.

#### C4-1.1.4

Category 4 investment firms must appoint at least two senior executives who are resident in the Kingdom of Bahrain and at least one of the senior executives must be the CEO, GM, Co-CEO, Managing Partner, or Senior Executive Officer of the licensee.

### *Controllers*

#### C4-1.1.5

A controller is a natural or legal person who, either alone or with his associates:

- (a) Holds 10% or more of the issued and paid-up capital in the licensee or parent undertaking; or
- (b) Is able to exercise more than 10% of the voting power over the licensee or the parent undertaking.

#### C4-1.1.6

For the purposes of Paragraph C4-1.1.5, 'associate' includes:

- (a) In the case of natural persons, a member of the controller's family;
- (b) If the controller is a legal person, a Director, an employee, a partner of the controller, a subsidiary of the controller, or a Director of any subsidiary undertaking of the controller; and
- (c) Any other person or undertaking with which the controller has entered into an agreement or arrangement as to the acquisition, holding or disposal of shares or other interests in the licensee, or under which they undertake to act together in exercising their voting power in relation to the licensee.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Licensing Conditions

## C4-1.1 Licensing Conditions (continued)

**C4-1.1.7** Bahraini category 4 investment firms must obtain prior approval from the CBB for any of the following changes to their controllers:

- (a) A new controller;
- (b) An existing controller increasing its holding from 10% to 20%;
- (c) An existing controller increasing its holding from below 20% to 30%;
- (d) An existing controller increasing its holding from below 30% to 40%;
- (e) An existing controller increasing its holding to above 40% for licensees not listed on any exchange in Bahrain or abroad; and
- (f) An existing controller reducing its holding to below 10%.

**C4-1.1.8** For the purposes of Subparagraph C4-1.1.7(a), licensees must submit information required in the controller section of Category 4 Investment Firm Authorisation Form (see Part B of the CBB Rulebook Volume 4) and must satisfy the CBB that the new controller is suitable and poses no undue risks to the licensee.

C4-1.1.9 In assessing the suitability of controllers the CBB will consider the track record of the proposed controllers, including adequate experience, financial strength, any record of disciplinary proceedings or conviction by a court or competent authority etc.

**C4-1.1.10** Overseas category 4 investment firms 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. The overseas category 4 investment firm must provide a copy of the relevant approval by the home supervisor of the parent (if applicable).

**C4-1.1.11** Category 4 investment firms must immediately notify the CBB in case of any material change to the information provided to the CBB for approval for a controller.

**C4-1.1.12** The percentage of direct or indirect control of a natural person or an unregulated legal person in a Bahraini category 4 investment firm must not exceed one-third of the issued and paid up capital. This limit does not apply to operators of venture capital CIUs.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Licensing Conditions

## C4-1.1 Licensing Conditions (continued)

### *Board and Employees*

**C4-1.1.13** Those nominated to carry out controlled functions must satisfy CBB's approved persons requirements which are set out in Section C4-1.3 of this Module.

### *Financial Resources*

**C4-1.1.14** Category 4 investment firms must maintain a level of financial resources, as agreed with the CBB, adequate for the level of business proposed. In all cases, category 4 investment firms must maintain a minimum capital of:

- (a) BD 100,000 if it operates exempt CIUs and PIUs; and
- (b) BD 25,000 if it only operates/manages venture capital CIUs.

**C4-1.1.15** The CBB may require category 4 investment firms to maintain higher capital and liquidity than those specified in Paragraph C4-1.1.14 depending on the nature, size and profile of the licensee on a case by case basis.

**C4-1.1.16** An investment by a category 4 investment firm into a CIU it operates (or directly into any company underlying a CIU it operates) must only be made out of the capital it holds in excess of its minimum capital.

C4-1.1.17 For the purposes of Paragraph C4-1.1.14, capital is defined as the shareholder's equity or the net assets of the licensee.

**C4-1.1.18** In the event that a category 4 investment firm fails to meet the minimum capital requirements, it must, on becoming aware that it has breached these requirements, immediately notify the CBB in writing. Unless otherwise directed, the licensee must in addition submit to the CBB, within 30 calendar days of its notification, a plan demonstrating how it will achieve compliance with these requirements.

**C4-1.1.19** Category 4 investment firms must maintain adequate liquid funds representing 25% of operating expenses incurred in the preceding financial year at all times in the form of cash or liquid assets that can be converted to cash in the short-term to cover its operating expenses.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Licensing Conditions

## C4-1.1 Licensing Conditions (continued)

C4-1.1.20 For the purposes of Paragraph C4-1.1.15, Category 4 investment firms in their first year of operation should use the estimated forecasted operating expenses as per the business plan submitted to the CBB at the time of obtaining the CBB license as the basis of computation of liquid funds.

**C4-1.1.21** Overseas applicants must provide a written confirmation from their head office that they will provide sufficient financial support to the branch to enable them to meet their obligations as and when they fall due. Overseas applicants must also demonstrate that the company as a whole will be adequately resourced at all times to cater to the risks and their obligations.

### *Systems and Controls*

**C4-1.1.22** Category 4 investment firms must maintain systems and controls that are, in the opinion of the CBB, commensurate with the scale and complexity of their activities. These systems and controls must meet the minimum requirements contained in this Module and with respect to financial crime risks, Module FC (Financial Crime).

**C4-1.1.23** As part of the licensing approval process, applicants must 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. They must also address risks, including liquidity, credit, market or investment risks, operational risks and other material risks to investors associated with assets under management in CIUs. Applicants may also be asked to provide an independent assessment of the appropriateness of their systems and controls to the CBB.

### *External Auditors*

**C4-1.1.24** Category 4 investment firms must appoint external auditors, subject to prior CBB approval. The minimum requirements set out in Section C4-2.2 of this Module must be met.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Licensing Conditions

## C4-1.1 Licensing Conditions (continued)

### *Books and Records*

**C4-1.1.25** Category 4 investment firms must maintain comprehensive books of accounts and other records (whether in electronic or hard copy form), which must be available for inspection within the Kingdom of Bahrain by the CBB, or persons appointed by the CBB, at any time. Licensees must maintain books and records sufficient to produce financial statements and show a complete record of the business undertaken and must retain such record for at least ten years. For overseas investment firms these requirements only apply to the business booked in their branch in Bahrain.

**C4-1.1.26** Category 4 investment firms must keep completed transaction records for as long as they are relevant for the purposes for which they were made with a minimum period in all cases of five years from the date when the transaction was terminated. Records of terminated transactions must be kept whether in hard copy or electronic format as per the Legislative Decree No. (54) of 2018 with respect to Electronic Transactions “The Electronic Communications and Transactions Law” and its amendments.

**C4-1.1.27** Category 4 investment firms must maintain the following records in original, hard copy or digital form at their premises in Bahrain:

- Internal policies, procedures and operating manuals;
- Corporate records, including minutes of shareholders', Directors' and management meetings;
- Correspondence with the CBB and records relevant to monitoring compliance with CBB requirements;
- Correspondence with their investors, and related parties;
- Reports prepared by the category 4 investment firm's internal and external auditors and compliance officer; and
- Employee training manuals and records.

**C4-1.1.28** Unless otherwise agreed to by the CBB in writing, records must be kept in either English or Arabic. Any records kept in languages other than English or Arabic must be accompanied by a certified English or Arabic translation. Records must be kept current. The records must be sufficient to allow an audit of the licensee's business or an on-site examination of the licensee by the CBB.

### *Provision of Information*

**C4-1.1.29** Category 4 investment firms must act in an open and cooperative manner with the CBB. Licensees must meet the regulatory reporting and disclosure requirements contained in Chapters C4-3 and C4-5 of this Module.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Licensing Conditions

## C4-1.1 Licensing Conditions (continued)

### *General Conduct*

C4-1.1.30

Category 4 investment firms must conduct their activities in a professional and orderly manner, in keeping with good market practice standards. 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 Chapter C4-3.

### *License Fees*

C4-1.1.31

Applicants seeking a category 4 investment firm license must pay a non-refundable license application fee of BD 100 at the time of submitting their formal application to the CBB.

C4-1.1.32

Category 4 investment firms must pay a variable annual licensing fee based on 0.25% of their relevant operating expenses, subject to:

- a minimum ('floor') of BD 750 and a maximum ('cap') of BD 2,000 for operators of venture Capital CIUs; and
- a minimum ('floor') of BD 2,000 and a maximum ('cap') of BD 6,000 for operators of other CIUs.

C4-1.1.33

Relevant operating expenses are defined as the total operating expenses of the licensee concerned, as recorded in the most recent audited financial statements available, excluding the following items:

- Training costs;
- Charitable donations;
- CBB fees paid; and
- Non-executive Directors' remuneration.

C4-1.1.34

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.

C4-1.1.35

Category 4 investment firms must pay the relevant annual license fee to the CBB on the 1<sup>st</sup> of December of the preceding year for which the fees are due.



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## C4-1.1 Licensing Conditions (continued)

**C4-1.1.36** Category 4 investment firms 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.

**C4-1.1.37** Category 4 investment firms are subject to direct debit for the payment of the annual fee 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 4 (Investment Business) CBB Rulebook on the CBB Website.

**C4-1.1.38** For new Category 4 investment firms, their first annual license fee is payable when their license is issued by the CBB. The amount payable is the floor amount.

C4-1.1.39 For the first full year of operation for category 4 investment firms, the licensee would calculate its fee as the floor amount. For subsequent 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).

C4-1.1.40 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.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-1: Authorisation Requirements

## C4-1.2 Licensing Process

### *Application and Documents*

#### C4-1.2.1

Applicants for a license must fill in the application for authorisation online, available on the CBB website under E-services/online Forms. The applicant must also upload PDF copies/scanned copies of the following supporting documents:

- (a) A comprehensive business plan for the application;
- (b) For overseas companies, the company's current commercial registration or equivalent documentation;
- (c) Where the applicant is an existing Bahraini company, the applicant's commercial registration certificate;
- (d) A certified copy of a Board resolution of the applicant, confirming its decision to seek a CBB category 4 investment firm license;
- (e) Details of the proposed licensee's group structure, if any, and 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 lead supervisor;
- (f) In the case of branch 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
- (g) In the case of branch applicants, the audited financial statements of the applicant (head office) for the three years immediately prior to the date of application;
- (h) Applicant's memorandum and articles of association (in draft form for applicants creating a new company).

C4-1.2.2 The CBB, at 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.



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<b>CHAPTER</b>	<b>C4-1: Authorisation Requirements</b>

## C4-1.2 Licensing Process (continued)

### C4-1.2.3

The business plan submitted in support of an application must include:

- (a) An outline of the history of the applicant and its shareholders;
- (b) The proposed type of activities to be carried on by the applicant in/from the Kingdom of Bahrain, including the applicant's strategy and market objectives;
- (c) The proposed Board and senior management of the applicant and the proposed organisational structure of the applicant;
- (d) An independent 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
- (e) A proforma 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 requirements.

### C4-1.2.4

The applicant's memorandum and articles of association must explicitly provide for it to undertake the activities proposed in the license application and must preclude the applicant from undertaking other regulated services, or commercial activities, unless these arise out of its investment activities or are incidental to those.

### C4-1.2.5

All documentation provided to the CBB as part of an application for a license must be in either the Arabic or English languages. Any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof.

### C4-1.2.6

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.

### C4-1.2.7

Articles 44 to 47 of the CBB Law govern the licensing process. This prescribes a single stage process, with the CBB required to take a decision within 60 calendar days of an application being deemed complete (i.e. containing all required information and documents). All applicants are strongly encouraged to contact the CBB at an early stage to discuss their plans, for guidance on the CBB's requirements.

### C4-1.2.8

The CBB recognises that applicants may find it difficult to complete all the incorporation procedures in the absence of preliminary assurances regarding the likelihood of obtaining a license. Therefore, CBB may provide an initial 'in principle' confirmation that the applicant appears likely to meet the CBB's licensing requirements, subject to the remaining information and documents being assessed as satisfactory. The 'in principle' confirmation will also list all outstanding documents required before an application can be considered complete and subject to formal consideration. An 'in principle' confirmation does not constitute a license approval, nor does it commit the CBB to issuing a license. The applicants can later complete their applications for final approval.



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<b>CHAPTER</b>	<b>C4-1: Authorisation Requirements</b>

## C4-1.2 Licensing Process (continued)

C4-1.2.9 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.

C4-1.2.10 Should a license be granted, the CBB will notify the applicant in writing of the fact; the CBB will also publish its decision to grant a license in the Official Gazette and in two local newspapers (one published in Arabic, the other in English).

C4-1.2.11 The CBB may refuse to grant a license if in its opinion:

- (a) The requirements of the CBB Law or this Module are not met;
- (b) False or misleading information has been provided to the CBB, or information which should have been provided to the CBB has not been so provided; or
- (c) The CBB believes it necessary in order to safeguard the interests of potential customers.

C4-1.2.12 Where the CBB proposes to refuse an application for a license, it will give the applicant a written notice to that effect. Applicants will be given a minimum of 30 calendar days from the date of the written notice to appeal the decision.

**C4-1.2.13** Before the final approval is granted to a licensee, confirmation from a retail bank addressed to the CBB that the licensee's capital as specified in the business plan has been paid in must be provided to the CBB.

### *Starting Operations*

**C4-1.2.14** Within 6 months of the license being issued, the new licensee must provide to the CBB (if not previously submitted):

- (a) The registered office address and details of premises to be used to carry out the business of the proposed licensee;
- (b) The address in the Kingdom of Bahrain where full business records will be kept;
- (c) The licensee's contact details including telephone and fax number, e-mail address and website;
- (d) A copy of its business continuity plan;
- (e) A copy of the auditor's acceptance to act as auditor for the applicant;
- (f) A copy of the licensee's professional indemnity insurance policy;
- (g) A copy of the applicant's notarized memorandum and articles of association;
- (h) A copy of the Ministry of Industry and Commerce commercial registration certificate in Arabic and in English;
- (j) An updated organisation chart showing the reporting lines, committees (if any) and including the names of the persons undertaking the controlled functions; and
- (k) Any other information as may be specified by the CBB.



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## C4-1.2 Licensing Process (continued)

### C4-1.2.15

New licensees must start their operations within 6 months of being granted a license by the CBB, failing which the CBB may cancel the license, as per the powers and procedures set out in Article 48 of the CBB Law.

#### *Amendment of Authorisation*

### C4-1.2.16

Category 4 investment firms wishing to vary the scope of their license must obtain the CBB's written approval, before effecting any such change. Such changes include whenever a licensee wishes to add or cease undertaking a regulated service, or to vary a condition imposed on their license. Licensees requesting CBB approval to undertake a new regulated service must provide the following:

- (a) A summary of the rationale for undertaking the proposed new service;
- (b) A description of how the new service will be managed and controlled; and
- (c) An analysis of the financial impact of the new service.

#### *Cancellation of Authorisation*

### C4-1.2.17

In accordance with Article 50 of the CBB Law, category 4 investment firms wishing to cancel their license or cease activities must obtain the CBB's written approval, before ceasing their activities. All such requests must be made in writing and include the following in support of the request:

- (a) Full details of the business to be terminated;
- (b) The rationale for the cessation;
- (c) How the licensee proposes to cease business;
- (d) Evidence that the proposed cessation has been duly authorised by the licensee (such as a certified copy of a Board resolution approving the cessation); and
- (e) If applicable, an assessment of the impact of the cessation on the licensee's remaining business and customers, and any mitigating factors or measures.

### C4-1.2.18

Category 4 investment firms, after receiving the CBB's in-principle approval for cessation of business, must invite the CBB to the Extraordinary General Meeting (EGM) held to seek the shareholder's approval on the following:

- (a) Cessation and subsequent liquidation of business; and
- (b) Appointment of a liquidator.



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## C4-1.2 Licensing Process (continued)

### C4-1.2.19

Once the shareholders give their approval to cease business, the licensee must publish a notice of its intention to cease business in two local daily newspapers (one in Arabic, the other in English). Notices must also be displayed in the premises (including any branch offices) of the licensee concerned. These notices must be given not less than 30 calendar days before the cessation is to take effect and must include such information as the CBB may specify including a statement that written representations concerning the liquidation may be submitted to the CBB before a specified day, which shall not be later than thirty calendar days after the day of the first publication of the notice. Prior to publication, the draft notices will be reviewed by the CBB.

### C4-1.2.20

Upon completion of the period specified in Paragraph C4-1.2.19, category 4 investment firms must request the CBB's final approval on the cessation and provide the proposed cut-off date. Licensees must also confirm in their request that either no objections to the cessation were received and/or any objections received have been adequately dealt with. The CBB will then grant the final approval to proceed with liquidation.

### C4-1.2.21

Upon completion of the liquidation process, the liquidator must provide the CBB with the following:

- (a) Liquidation report;
- (b) Final audited accounts;
- (c) Proof of cancellation of the name of the licensee from the Commercial Registry;
- (d) The original CBB license certificate;
- (e) Proof of payment of publication fees for the CBB to publish the cancellation of license;
- (f) Confirm that there are no outstanding liabilities, claims or legal proceedings; and
- (g) Request the CBB to cancel the license.

### C4-1.2.22

The category 4 investment firm must continue to comply with all applicable CBB requirements until such time as it is formally notified by the CBB that its obligations have been discharged and a final written notice of license cancellation is issued.



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CHAPTER	C4-1: Authorisation Requirements

## C4-1.2 Licensing Process (continued)

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

C4-1.2.23 As provided for under Article 48 (c) of the CBB Law, the CBB may itself move to cancel a license, for instance if a licensee fails to satisfy any of its existing license conditions or protecting the legitimate interests of customers or creditors of the licensee requires a cancellation. 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-7, 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.

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

C4-1.2.24 In accordance with Articles 47 and 49 of the CBB Law, the CBB will 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, the cost of which is borne by the licensee. The CBB may also publish its decision on such cancellation or amendment using any other means it considers appropriate, including electronic means.

### *Business Transfers*

**C4-1.2.25** Category 4 investment firms must seek prior written approval from the CBB before transferring any of its business to a third party.

C4-1.2.26 Paragraph C4-1.2.25 is intended to apply to circumstances where a category 4 investment firm wishes to sell all or part of its business to a third party. It does not apply where a category 4 investment firm is simply allocating client assets to a third party, on instruction from the client concerned or managing client assets through another asset manager.

**C4-1.2.27** In the case of a Bahraini category 4 investment firm, business transfer requirements apply both to its business booked in Bahrain and in the firm's overseas branches. In the case of an overseas category 4 investment firm, the requirements only to business booked in the firm's Bahrain branch.

**C4-1.2.28** In all cases, CBB approval to transfer business will only be given where:

- The transfer of business will not damage or otherwise prejudice the legitimate interests of the licensee's customers;
- The transferee is duly licensed to undertake the business which it is to receive; and
- The CBB is satisfied that the transfer will not breach any applicable laws or regulations and would not create any supervisory concerns.



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## C4-1.2 Licensing Process (continued)

C4-1.2.29 In assessing the criteria outlined in Paragraph C4-1.2.28, the CBB will, amongst other factors, take into account the financial strength of the transferee; its capacity to manage the business being transferred; its track record in complying with applicable regulatory requirements; and (where applicable) its track record in treating customers fairly. The CBB will also take into account the impact of the transfer on the transferor, and any consequences this may have for the transferor's remaining customers.

**C4-1.2.30** Category 4 investment firms seeking to obtain the CBB's permission to transfer business must provide the following information in their request:

- (a) Full details of the business to be transferred;
- (b) The rationale for the proposed transfer;
- (d) If applicable, an assessment of the impact of the transfer on the transferor's remaining business and customers, and any mitigating factors or measures; and
- (e) Evidence that the proposed transfer has been duly authorised by the transferor (such as a certified copy of a Board resolution approving the transfer).

C4-1.2.31 Licensees intending to apply to transfer business are advised to contact the CBB at the earliest possible opportunity, prior to submitting a formal application, in order that the CBB may determine the nature and level of documentation to be provided and the need for an auditor or other expert opinion to be provided to support the application.

**C4-1.2.32** At its discretion, the CBB may require that a notice of proposed transfer of business be published in the Official Gazette, and/or in at least two local daily newspapers (one in Arabic, the other in English), in order to give affected customers, the right to comment on the proposed transfer. Where such a requirement has been imposed, the CBB's decision on the application will also be published in the Official Gazette and in at least two local daily newspapers. In all such cases, the costs of publication must be met by the transferor.

### *Branches, Subsidiaries and Representative Offices*

**C4-1.2.33** As specified in Articles 51 and 57 of the CBB Law, a Bahraini category 4 investment firm must seek CBB approval and provide adequate information for 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;
- (c) Open a new place of business as a subsidiary undertaking or a branch within the Kingdom of Bahrain or other jurisdiction; or
- (d) Open a representative office in another jurisdiction.



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## C4-1.2 Licensing Process (continued)

### C4-1.2.34

Bahraini category 4 investment firms wishing to establish or acquire a subsidiary undertaking must submit the following information to the CBB as part of the approval process:

- (a) Proposed name of subsidiary;
- (b) Country of incorporation;
- (c) Legal structure;
- (d) Proposed paid-up capital;
- (e) Proposed shareholding structure;
- (f) Purpose of establishing or acquiring the subsidiary;
- (g) Draft incorporation documents of the subsidiary;
- (h) Board Resolution approving the establishment or acquisition of the subsidiary;
- (i) Names of the board members of the proposed subsidiary and the relationship of the board member to the licensee;
- (j) Names of the authorised signatories of the proposed subsidiary;
- (k) An undertaking from the board of the licensee that the board will be held ultimately responsible for any misconduct or action committed by the proposed subsidiary; and
- (l) Any other information or documentation as required by the CBB.

### C4-1.2.35

Bahraini category 4 investment firm wishing to establish a branch or a representative office in a jurisdiction other than the Kingdom of Bahrain, must submit the following information to the CBB as part of the approval process:

- (a) Name of the host supervisor;
- (b) Proposed license type of the branch;
- (c) Purpose of establishing the branch or representative office;
- (d) Board Resolution approving the establishment of the branch or representative office;
- (e) The minimum requirements of the host jurisdiction; and
- (f) Any other information or documentation as required by the CBB.



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### C4-1.3 Approved Persons

#### *General Requirement*

C4-1.3.1 Category 4 investment firms must obtain the CBB's prior written approval for any person wishing to undertake a controlled function in the licensee.

C4-1.3.2 Controlled functions are those of:

- Director;
- Chief Executive, General Manager, Managing Partner or Co-CEO;
- Head of function;
- Compliance officer;
- Money Laundering Reporting Officer; and
- Investment consultant or investment adviser.

C4-1.3.3 Prior approval is required for all controlled functions mentioned in Paragraph C4-1.3.2. Minimum controlled functions required to be appointed and their combinations are subject to the requirements contained Chapter C4-2 of this Module.

#### *Definitions*

C4-1.3.4 Director is any person who is a member of the licensee's Board of Directors, and is individually, and collectively with other Directors responsible for directing the affairs and overseeing the activities of the licensee.

C4-1.3.5 The Chief Executive, General Manager, Managing Partner or Co-CEO means a person who is responsible for the conduct of the licensee (regardless of actual title) and its executive management and performance, within the framework of delegated authorities set by the Board.

C4-1.3.6 Compliance officer or head of compliance function is responsible to ensure that the licensee is in compliance with the applicable legal and regulatory requirements of the CBB and any other relevant regulator/authority.

C4-1.3.7 The controlled functions of Money Laundering Reporting Officer/Deputy Money Laundering Reporting Officer are defined under Chapter FC-3.



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### C4-1.3 Approved Persons (continued)

**C4-1.3.8** Head of function means a person who exercises major managerial responsibilities, is responsible for a significant business or operating unit, or has senior managerial responsibility for maintaining accounts or other records of the licensee.

**C4-1.3.9** An investment consultant or investment adviser refers to the function of advising a client or potential client with respect to buying, selling, subscribing for or underwriting a particular financial instrument or exercising any right conferred by such a financial instrument.

#### *Approved Persons Conditions*

**C4-1.3.10** Category 4 investment firms 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. 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; and
- (f) Must have personal integrity, good conduct and reputation;
- (g) Has appropriate qualifications and experience for the controlled function in question.

C4-1.3.11 For the purposes of sub-paragraph C4-1.3.17(g), category 4 investment firms should satisfy the CBB that the controllers, managing partners and the CEO collectively have adequate experience in the related fields, including venture capital, angel investing and entrepreneurship / start-ups for operators of venture capital CIUs.

**C4-1.3.12** 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.



MODULE	C4: Category 4 Investment Firms
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### C4-1.3 Approved Persons (continued)

#### *Prior Approval Requirements and Process*

##### C4-1.3.13

Category 4 investment firms 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 the approved persons' section of the application for authorisation and Curriculum Vitae after verifying that all the information provided is accurate. The following additional documents must be attached with the application:

- (a) A certified copy of the applicant's passport and national ID card;
- (b) Certified copies of applicant's educational and professional qualification certificates (with its translation if not in Arabic or English);
- (c) Licensee's organisation chart (or proposed organisation chart if it is to be amended) clearly showing the proposed applicant's position and reporting lines in the organisation.

##### C4-1.3.14

The CBB approval for the Board of director candidates of category 4 investment firms must be obtained prior to issuance of the notice/agenda of the shareholder's meeting in which the candidates are put forward for election/approval. CBB approval of the candidates does not in any way limit the shareholders' rights to refuse those put forward for election/approval.

#### *Assessment of Application*

C4-1.3.15 The CBB will review and assess the application for approved person status to ensure that it satisfies CBB's 'fit and proper' requirements and respond within 15 business days from the date of receiving the application complete with all the required information and documents. The CBB reserves the right to refuse an application for approved person status if it does not satisfy the CBB's requirements.

C4-1.3.16 Category 4 investment firms 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 licensee of its decision within 30 calendar days from submitting the appeal.

#### *Notification Requirements and Process*

##### C4-1.3.17

Category 4 investment firms must immediately notify the CBB when:

- (a) An approved person ceases to hold a controlled function together with an explanation as to the reasons why. In such cases, their approved person status is automatically withdrawn by the CBB; or
- (b) In case of any material change to the information provided in the application submitted for an approved person.



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### C4-1.3 Approved Persons (continued)

**C4-1.3.18** If a controlled function falls vacant, the category 4 investment firm 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 licensee must make immediate interim arrangements to ensure continuity of the duties and responsibilities of the controlled function affected, provided that such arrangements do not pose a conflict of duties. These interim arrangements must be approved by the CBB.

#### *Training and Competence*

**C4-1.3.19** Category 4 investment firms must assess individuals as competent when they have demonstrated the ability to apply the knowledge and skills required to perform a specific controlled function without supervision.

**C4-1.3.20** Category 4 investment firms must annually determine the training needs of individuals undertaking controlled functions. It must develop a training plan to address these needs and ensure that training is planned, appropriately structured and evaluated. The training plan of category 4 investment firms must include a programme for continuous professional development training (“CPD”) for their staff.

C4-1.3.21 Category 4 investment firms should make and retain updated records of:

- The criteria applied in assessing the ongoing and continuing competence;
- How and when the competence decision for a staff member was arrived at including any periodic assessments;
- The annual training plan for each controlled function;
- Record of CPD hours undertaken by each approved person;



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## C4-2.1 Board and Management Structure

**C4-2.1.1** Category 4 investment firms must be headed by an effective, collegial and informed Board of Directors.

### *Board Role and Responsibilities*

C4-2.1.2 All directors should understand the Board's role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time. In particular:

- (a) The Board's role as distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of officers (whom the Board appoints and oversees); and
- (b) The Board's fiduciary duties of care and loyalty to the category 4 investment firm and the shareholders.

C4-2.1.3 The Board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy for the category 4 investment firm;
- (b) Causing financial statements to be prepared which accurately disclose the category 4 investment firm's financial position;
- (c) Monitoring management performance;
- (d) Convening and preparing the agenda for shareholder meetings;
- (e) Monitoring conflicts of interest and preventing abusive related party transactions; and
- (e) Assuring equitable treatment of shareholders including minority shareholders.

C4-2.1.4 The directors are responsible both individually and collectively for performing these responsibilities. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

C4-2.1.5 The category 4 investment firm should have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

C4-2.1.6 The Board should adopt a formal Board charter or other statement specifying matters which are reserved to it, which should include but need not be limited to the specific requirements and responsibilities of directors.

### *Board Composition*

C4-2.1.7 The Board should regularly review its size and composition to ensure that it is small enough for efficient decision-making yet large enough to have members who can contribute from different specialties and viewpoints. Category 4 investment firms may appoint non-executive directors or a separate advisory board to obtain expert guidance.



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## C4-2.1 Board and Management Structure (continued)

### *Directors' Communication with Management*

C4-2.1.8 The Board must encourage participation by management regarding matters the Board is considering. Non-executive directors or where applicable advisory board members should have free access to the category 4 investment firm's management beyond that provided in Board meetings.

### *Management Structure*

**C4-2.1.9** The Board must appoint senior management whose authority must include management and operation of current activities of the category 4 investment firm, reporting to and under the direction of the Board. The Board must make adequate arrangements, at a minimum for the below functions/positions:

- (a) A CEO, General Manager (or CO-CEO, Managing Partner etc.);
- (b) Financial control;
- (c) Compliance;
- (d) Risk management;
- (e) Asset management;
- (f) Internal audit; and
- (g) Anti-Money Laundering (AML).

**C4-2.1.10** For the purposes of Paragraph C4-2.1.9 and as per Paragraph C4-1.1.4, the Board is required to appoint at least two senior executives that are resident in Bahrain, one of who is the CEO, but the category 4 investment firm, with the approval of the CBB, may outsource other functions provided the following conditions are met:

- (a) The Board and senior management take responsibility for the outsourced activities and maintain oversight and control over the operations of the outsourced service provider;
- (b) The licensee satisfies the CBB that adequate arrangements are in place to fulfill the role's responsibilities;
- (c) The core business of asset management is carried out internally although the firm may utilise third-parties for managing the related processes; and
- (d) Compliance and AML functions (which may be combined) must have on-site presence (either in-house or on a secondment basis).

C4-2.1.11 The Board and CEO should prescribe each senior manager's title, authorities, duties and internal reporting responsibilities. The Board may also specify any limits on the authority of the CEO or other senior managers, such as monetary maximums for transactions which they may authorise without separate Board approval.

C4-2.1.12 At least annually, the Board should review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.



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## C4-2.1 Board and Management Structure (continued)

### *Approved Persons Accountability*

C4-2.1.13 Each approved person should understand that under the Law he is personally accountable to the category 4 investment firm and the shareholders and if he violates his legal duty of loyalty to the licensee, and that he can be personally sued by the licensee or the shareholders for such violations.

### *Conflicts of Interest*

C4-2.1.14 Each approved person should make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the category 4 investment firm. This includes not using licensee's information it for his personal profit, not to take business opportunities of the licensee for himself, and not to compete in business with the category 4 investment firm. The Board should also have in place a policy on the employment of relatives of the approved persons.

**C4-2.1.15** Approved persons must inform the Board of conflicts of interest as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Law.

### *Communication between Board and Shareholders*

C4-2.1.16 The category 4 investment firm should communicate with shareholders, encourage their participation, and respect their rights. The Board should observe both the letter and the intent of the Commercial Company Law's requirements for shareholder meetings.

### *Remuneration of Approved Persons*

**C4-2.1.17** The category 4 investment firm must remunerate approved persons fairly and responsibly.

C4-2.1.18 Remuneration of approved persons should be sufficient enough to attract, retain and motivate persons of the quality needed to run the category 4 investment firm successfully, but the licensee should avoid paying more than is necessary for that purpose.



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## C4-2.2 Auditor Requirements

### *Appointment of Auditors*

**C4-2.2.1** Category 4 investment firms must obtain prior written approval from the CBB before appointing or re-appointing their auditors.

C4-2.2.2 Where a licensee fails to appoint an external auditor within four months from the beginning of the financial year, Article 61 (b) of the CBB Law provides the CBB with the power to appoint the external auditor.

### *Resignation or Removal of Auditors*

**C4-2.2.3** Category 4 investment firms must notify the CBB immediately if they intend to remove their auditors, with an explanation of their decision, or when their auditors resign. The licensee must appoint the replacement auditor as soon as practicable but no later than three months.

**C4-2.2.4** In accordance Article 63 of the CBB Law, auditors of category 4 investment firms must inform the CBB in writing, if they resign or their appointment as auditor is terminated, within 30 calendar days, of the event occurring, setting out the reasons for the resignation or termination.

### *Audit Partner Rotation*

**C4-2.2.5** Unless otherwise exempted by the CBB, category 4 investment firms must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession. Licensees must notify the CBB of any change in audit partner.

### *Auditor Independence*

**C4-2.2.6** Before a category 4 investment firm appoints an auditor, it must take reasonable steps to ensure that the auditor has the required skill, resources and experience to carry out the audit properly, and is independent of the licensee. For an auditor to be considered independent, it must, among things, comply with the restrictions in this Section.

**C4-2.2.7** If a category 4 investment firms becomes aware at any time that its auditor is not independent, it must take reasonable steps to remedy the matter and notify the CBB of the fact. The CBB may require the appointment of a new auditor if the issue is not resolved within a reasonable timeframe.



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## C4-2.2 Auditor Requirements (continued)

**C4-2.2.8** Category 4 investment firms must not provide regulated services to their auditors or outsource their internal audit function to the same firm that acts as their external auditors.

**C4-2.2.9** A partner, director or manager on the engagement team of auditing a category 4 investment firms may not serve on the Board or in a controlled function of the licensee, for two years following the end of their involvement in the audit, without prior authorisation of the CBB.

C4-2.2.10 The Bahrain Commercial Company's Law and the CBB Law provide further requirements with regards to the licensee's relationship with auditors.

### *CBB Access to Auditors*

**C4-2.2.11** Category 4 investment firms must waive any duty of confidentiality on the part of their auditors, such that their auditors may report to the CBB any concerns held regarding material failures by the licensee to comply with CBB requirements.

C4-2.2.12 In accordance with Articles 114 and 121 of the CBB Law, the CBB may appoint appointed experts to undertake on-site examinations or report by way of investigations on specific aspects of a category 4 investment firm's business. External auditors may be called upon to be appointed experts and should be aware of their role in that capacity by referring to Section C4-5.3.

### *Auditor Access to Outsourcing Providers*

**C4-2.2.13** Outsourcing agreements between category 4 investment firms and outsourcing providers must ensure that the licensee's internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.

### *Report on Compliance with Client Asset Rules*

**C4-2.2.14** Category 4 investment firms that hold or control client assets must arrange for their external auditors to report on the licensee's compliance with the requirements contained in Appendix CL – (i) at least once a year. The report must be in the form agreed by CBB and must be submitted to the CBB within three months of the licensee's financial year-end.



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CHAPTER	C4-3: Operating Requirements

### C4-3.1 Overarching Principles

#### C4-3.1.1

Category 4 investment firms must:

- (a) Act with due skill, care and diligence in all dealings with clients;
- (b) Provide services without any discrimination based on gender, nationality, origin, language, faith, religion, physical ability or social standing;
- (c) Act fairly and reasonably in all dealings with clients;
- (d) Identify clients' specific requirements in relation to the products and services about which they are enquiring and take adequate measures to avoid mis-selling and misrepresentation;
- (e) Ensure that any advice to clients is aimed at the clients' interests and based on adequate standards of research and analysis;
- (f) Provide sufficient information to enable clients to make informed decisions when purchasing investment products and services offered to them;
- (g) Provide sufficient and timely documentation to clients to confirm that their investment arrangements are in place and provide all necessary information about their products, rights and responsibilities;
- (h) Maintain fair treatment of clients through the lifetime of the client relationships, and ensure that clients are kept informed of important events;
- (i) Ensure complaints from clients are dealt with fairly and promptly;
- (j) Ensure that all information provided to clients is clear, fair and not misleading, and appropriate to clients' information needs; and
- (k) Take appropriate measures to safeguard any money and property handled on behalf of clients and maintain confidentiality of client information.

#### *Client Classification*

#### C4-3.1.2

Category 4 investment firms must only provide services to accredited investors who are defined as:

- (a) Individuals who have a minimum net worth (or joint net worth with their spouse) of USD 1,000,000, excluding that person's principal place of residence;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1,000,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).



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### C4-3.1 Overarching Principles (continued)

#### C4-3.1.3

Before providing any regulated investment services to any client, a category 4 investment firm must take reasonable steps to obtain appropriate information to establish whether that client is an accredited investor. Such classification must be communicated to the client along with an explanation of the implications of such classification. Licensees must also keep records of the classification established for each client, including sufficient information to support such classification.

#### *Conflicts of Interest*

#### C4-3.1.4

Category 4 investment firms must take all reasonable steps to identify conflicts of interest between themselves (or any person directly or indirectly linked to them by control) and their clients, which may arise in the course of providing a regulated investment service. Any such conflict of interest must be disclosed to the client and take reasonable steps to obtain the client's no objection.

#### C4-3.1.5

Category 4 investment firms must establish policies and procedures to manage conflicts to interest, including where appropriate information barriers, Chinese walls etc. If the licensee is unable to manage a conflict of interest it must decline to act for the client. The policies must also cover an employee's personal account transactions.

#### C4-3.1.6

Category 4 investment firms must establish controls, policies and procedures to ensure that neither they, nor any of their employees, offer, give, solicit or accept any inducement which is likely to conflict significantly with any duty that they owe to their clients.

#### *Professional Indemnity Insurance*

#### C4-3.1.7

Category 4 investment firms must satisfy the CBB that its professional indemnity coverage is adequate for the nature, size and risk profile of its business.



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## C4-3.2 Disclosure Requirements

### C4-3.2.1

Category 4 investment firms must provide (with respect to regulated investment services), comprehensible information to clients or potential clients on:

- (a) Itself and the types of services that it can provide;
- (b) Fees, costs and associated charges such as:
  - (i) The basis or amount of its charges, remuneration and commission for conducting regulated investment services; and
  - (ii) The nature or amount of any other income receivable by it or, to its knowledge, by its associate and attributable to that regulated investment service;
- (c) Proposed CIU structures, investments and strategies and appropriate guidance on and warnings of the risks associated with those investments and strategies; and
- (d) Information about methods of redress.

### C4-3.2.2

For the purpose of Subparagraph C4-3.2.1 (b), category 4 investment firms must disclose any remuneration that the operator/manager is eligible to receive such as carried interest and employee share option plans (ESOP) to its clients in the prospectus or other offering document.

### C4-3.2.3

Category 4 investment firms must provide periodic statements and updates, at least on a semi-annual basis, to their clients on the status of their investments.

### C4-3.2.4

For the purposes of Paragraph C4-3.2.3, information provided to clients may include the following, where applicable:

- (a) Updates on status of the CIU, the underlying assets and future strategies and plans;
- (b) Value of the client's investments (for example total and net asset value of the CIU);
- (c) Any debt, pledges on the CIU assets, and resulting costs such as interested payments;
- (d) Fees and charges paid during the period and their nature;
- (e) Details of remuneration of the operator/manager;
- (f) Details of any income received during the period such as dividends etc.; and
- (g) Any material changes to the structure of the CIUs, the licensee, the management etc.



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### C4-3.3 Client Assets

**C4-3.3.1** Category 4 investment firms must ensure they have made adequate arrangements for safeguarding client assets comprising money or financial instruments belonging to clients which are held or controlled by the licensee in connection with its business activities.

C4-3.3.2 For the purpose of C4-3.3.1 client assets are held or controlled by the category 4 investment firm on behalf of a client if they are:

- (a) Directly held by the licensee;
- (b) Held in an account in the name of the licensee;
- (c) Held by a person, or in an account in the name of a person, controlled by the licensee; or
- (d) Held in an account with another person, controlled by the licensee; or
- (e) The account is operated in accordance with the instructions of the licensee.

**C4-3.3.3** Category 4 investment firms must ensure that client assets are held separately from assets belonging to the licensees and that they disclose the arrangements for custody of the client assets in their prospectus and agreements with the clients.

**C4-3.3.4** Category 4 investment firms must ensure the following in respect of custody of assets of the CIUs:

- (a) Undertake an appropriate risk assessment of that custodian and document the same;
- (b) That the client will assume the unsecured credit risk of the custodian or third party with whom the licensee places the client assets that it holds;
- (c) If applicable, that client assets may be held in a jurisdiction outside the Kingdom of Bahrain;
- (d) Agree with the client the details of any claims or set offs which the licensee may have in client assets held on behalf of the client in satisfaction of a default by the client or otherwise, and any rights which the licensee may have to closeout or liquidate contracts or positions in respect of any of the client assets, without the client's prior instruction or consent; and
- (e) Obtain clients' consent in writing for the arrangements for custody in a document which gives clear information on:
  - i. The terms governing the way in which the client assets will be held and the obligations and responsibilities of the licensee and/or of the third-party custodian (where applicable), the clients (including the terms for the restitution of the financial instruments);
  - ii. The risks involved; and
  - iii. Whether interest on client money held is payable to the client and, if so, the terms and frequency of such payments.



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### C4-3.3 Client Assets (continued)

#### C4-3.3.5

**Category 4 investment firms must require that if a safe custody financial instrument is recorded in an account with a custodian, the custodian makes it clear in the title of the account that the financial instrument belongs to one or more clients of the licensee.**

#### C4-3.3.6

Category 4 investment firms that hold custody of financial instruments with a custodian are expected to establish and maintain a system for assessing the appropriateness of the selection of the custodian and to assess the continued appointment of that custodian periodically as often as is reasonable in the relevant market. The licensee is also expected to make and retain a record of the grounds on which it satisfies itself as to the appropriateness of its selection or, following a periodic assessment, continued appropriateness of the custodian.

#### *Client Money*

#### C4-3.3.7

**Category 4 investment firms must hold all client money in a client bank account.**

#### C4-3.3.8

For the purposes of C4-3.3.7, a client bank account is an account holding client money of one or more clients in a bank account designated as such in accordance with the terms of agreement with the client/clients.

#### C4-3.3.9

**Client bank accounts in respect of Bahrain domiciled CIUs may only be opened with banks licensed to do business in the Kingdom of Bahrain unless approved by CBB for any given justifiable circumstances.**

#### C4-3.3.10

If the bank holding client money is located outside the Kingdom of Bahrain, category 4 investment firms should take reasonable steps to establish that the bank is appropriate considering, among other factors, the following:

- (a) Whether it is a duly licensed bank in good regulatory standing in the jurisdiction it operates;
- (b) The capital adequacy of the bank is reasonable;
- (c) The amount of client money to be placed, as a proportion of the bank's capital and deposits is not disproportionate; and
- (d) The credit rating of the bank, if available is good.

#### *Transfer of Money to Eligible Third Parties*

#### C4-3.3.11

**Category 4 investment firms may only pay, or permit to be paid, client money into an account other than the client bank account if that account is an eligible third party.**

#### C4-3.3.12

Eligible third parties are recognised exchanges, clearing houses and third-party intermediaries (such as brokers), that are duly authorised or licensed by the appropriate regulatory oversight body.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-3: Operating Requirements

### C4-3.3 Client Assets (continued)

#### C4-3.3.13

For the purposes of C4-3.3.11, the category 4 investment firm must assess the suitability of an eligible third party before allowing it to hold or control client money. This assessment must include, at a minimum, the information included below:

- (a) The eligible third party's credit rating, capital and financial resources;
- (b) The regulatory and insolvency regimes of the jurisdiction in which the eligible third party is located;
- (c) The eligible third party's reputation;
- (d) Its regulatory status and history; and
- (e) The other members of the eligible third party's group and their activities.

#### C4-3.3.14

Category 4 investment firms may allow an eligible third party, such as an exchange, a clearing house or an intermediate broker, to hold or control client money, only if the licensee transfers the client money:

- (a) For the purpose of a transaction for a client through or with that eligible third party; or
- (b) To meet a client's obligations to provide collateral for a transaction.

#### C4-3.3.15

Category 4 investment firms must not hold money other than client money in a client bank account unless it is:

- (a) A minimum sum required to open the account or to keep it open;
- (b) Money temporarily held in the account in accordance with the mixed remittance requirements in Paragraph C4-3.3.17; or
- (c) Interest credited to the account which exceeds the amount due to clients as interest and which has not yet been withdrawn by the licensee.

#### C4-3.3.16

Category 4 investment firm may pay into a client bank account money of its own to protect client money if it is prudent to do so, and that money will then become client money for the purposes of the client asset protection rules in this Module until the licensee retrieves it.

#### C4-3.3.17

If a category 4 investment firm receives a mixed remittance (that is part client money and part other money), it must:

- (a) Pay the full sum into a client bank account; and
- (b) Pay the money that is not client money out of the client bank account within one business day.

#### C4-3.3.18

Category 4 investment firms should not hold excess client money in its client transaction accounts with intermediate brokers, settlement agencies or over the counter (OTC) counterparties; it should be held in a client bank account.



MODULE	C4:	Category 4 Investment Firms
CHAPTER	C4-3:	Operating Requirements

### C4-3.3 Client Assets (continued)

#### *Reconciliation*

##### C4-3.3.19

Category 4 investment firms must ensure that a system is implemented to perform reconciliations of both client bank accounts and eligible third-party accounts in which client money is held. These reconciliations must be carried out on a regular basis, sufficient to ensure the accuracy of its records (but at a minimum, on a monthly basis as at the last business day of each calendar month).



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-3: Operating Requirements

## C4-3.4 Customer Complaints Procedures

**C4-3.4.1** Category 4 investment firms must have adequate customer complaints handling procedures and systems for effective handling of complaints made by customers. The procedures must be documented appropriately, and the customers must be informed of their availability.

C4-3.4.2 Category 4 investment firms should assign the responsibility to handle customer complaints and be the contact point for the customers to a senior level employee and publicise his/her contact details. The position may be outsourced to a third-party with the CBB's prior approval.

**C4-3.4.3** For the purposes of Paragraph C4-3.4.1, customer complaints handling procedures must include the following:

- (a) The procedures and policies for:
  - (i) Receiving and acknowledging complaints;
  - (ii) Investigating complaints;
  - (iii) Responding to complaints within appropriate time limits;
  - (iv) Recording information about complaints;
  - (v) Identifying recurring system failure issues.
- (b) The types of remedies available for resolving complaints; and
- (c) The periodic reporting of customer complaints and concerns to the Board and senior management.

### *Visibility and Accessibility*

**C4-3.4.4** "How and where to complain" must be well publicised to customers and other interested parties, in both English and Arabic languages. The complaints handling process must be easily accessible to all customers and must be free of charge.

### *Responsiveness*

**C4-3.4.5** Category 4 investment firms must promptly acknowledge a customer complaint and in no case, later than within 5 working days of receipt. Licensees must also promptly respond to a customer complaint in accordance with their urgency, and in no case, later than 4 calendar weeks of receiving the complaint, explaining their position and how they propose to deal with the complaint, including any redress. Until the complaint is resolved, the customers must be kept informed of the progress of their complaint.

**C4-3.4.6** If a customer is not satisfied with a category 4 investment firm's response or redress options, the licensee must advise the customer on how to take the complaint further within the organisation, including, the option to refer the matter to the Consumer Protection Unit at the CBB.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-3: Operating Requirements

#### C4-3.4 Customer Complaints Procedures (continued)

##### *Objectivity*

##### C4-3.4.7

Complaints must be addressed in an equitable, objective, unbiased and efficient manner. The following measures must be implemented in this respect:

(a) Impartiality:

- i. Measures must be taken to protect the person the complaint is made against from bias;
- ii. The investigation must be carried out by a person independent of the person complained about.

(b) Confidentiality:

- i. Ensure confidentiality for staff who have a complaint made against them and the details must only be known to those directly concerned;
- ii. Customer information must be protected and not disclosed, unless the customer consents otherwise; and
- iii. Protect the customer and customer's identity as far as is reasonable to avoid deterring complaints due to fear of inconvenience or discrimination.

##### *Records of Complaints*

##### C4-3.4.8

Category 4 investment firms must maintain a record of all customers' complaints. The record of each complaint must include:

- (a) The identity of the complainant;
- (b) The substance of the complaint;
- (c) The status of the complaint, including whether resolved or not, and whether redress was provided; and
- (d) All correspondence in relation to the complaint.

Such records must be retained by the licensee for a period of 5 years from the date of receipt of the complaint.

##### *Reporting of Complaints*

##### C4-3.4.9

Category 4 investment firms must electronically submit to the CBB's Consumer Protection Unit at [complaint@cbb.gov.bh](mailto:complaint@cbb.gov.bh), a quarterly report summarising the following:

- (a) The number of complaints received;
- (b) The substance of the complaints;
- (c) The number of days it took the licensee to acknowledge and to respond to the complaints; and
- (d) The status of the complaint, including whether resolved or not, and whether redress was provided.

C4-3.4.10 Where no complaints have been received by the licensee within the quarter, a 'nil' report should be submitted to the CBB's Consumer Protection Unit.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

## C4-4.1 Risk Governance

### C4-4.1.1

The Board of category 4 investment firms is ultimately responsible for the establishment of an adequate and effective framework for identifying, measuring monitoring and managing risks. The CBB expects the Board to be able to demonstrate that it provides suitable oversight and establishes effective systems and controls proportionate to the nature, scale and complexity of the licensee's activities.

### C4-4.1.2

Category 4 investment firms must have a risk management function, independent of risk-taking, commensurate with the nature, scale and complexity of their business. The duties of the risk management function include but are not limited to:

- (a) Identifying, measuring, monitoring, and controlling the major sources of risks associated with the operations of the licensee including any entity it may own, control or manage on an ongoing basis;
- (b) Reporting to the Board and senior management on all material risks the licensee is exposed to; and
- (c) Documenting the processes and systems by which it identifies and monitors material risks, and how it reports to the Board and senior management these risks.

### C4-4.1.3

For the purposes of Paragraph C4-4.1.2 and as per Paragraph C4-2.1.10, category 4 investment firms may outsource its risk management function to a third party, provided CBB prior approval is obtained.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

## C4-4.2 Risk Management Framework

### C4-4.2.1

The risk management framework of category 4 investment firms must provide for the establishment and maintenance of effective systems and controls including Board approved policies that enable the licensee to identify, measure, monitor and manage the major sources of risk arising from its own books and those arising from the CIU it operates in each of the following categories:

- (a) Counterparty risk;
- (b) Market risk;
- (c) Liquidity risk;
- (d) Operational risk (including where relevant cyber security risk);
- (e) Outsourcing Risk; and
- (f) Any additional categories relevant to its business.

### C4-4.2.2

Category 4 investment firms must have contingency arrangements to ensure, that they can access sufficient liquid financial resources to meet liabilities as they fall due.

### C4-4.2.3

The risk reporting and monitoring systems of category 4 investment firms must be independent of the employees who are responsible for exposing the licensee to risk.

#### *Valuation*

### C4-4.2.4

Category 4 investment firms must have policies and procedures for valuation of assets under management. Wherever possible, the licensee must use mark to market approach for valuation purposes. Where mark to model approach is not used due to lack of market prices, licensees must follow internationally recognised standards for valuation. Licensees must also utilise independent valuation experts to verify accuracy of valuation models.

#### *Business Continuity Planning*

### C4-4.2.5

Category 4 investment firms must maintain a business continuity plan (BCP) appropriate to the size and complexity of its operations. The BCP must include procedures for ensuring that critical systems, functions and operations can be maintained or recovered in a timely manner in the event of a disruption

#### *Review*

### C4-4.2.6

Category 4 investment firms must establish mechanisms, including internal audits, to verify that controls, once established, are being followed.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

### C4-4.3 Outsourcing Risk

**C4-4.3.1** Category 4 investment firms must identify all material outsourcing contracts and ensure that the risks associated with such contracts are adequately controlled.

C4-4.3.2 Outsourcing means an arrangement whereby a third party performs on behalf of a licensee an activity that was previously undertaken by the licensee itself (or in the case of a new activity, one which ordinarily would have been performed internally by the licensee).

C4-4.3.3 For purposes of C4-4.3.1, a contract is ‘material’ where, if it failed in any way, it would pose significant risks to the on-going operations of a licensee, its reputation and/or the quality of service provided to its clients. For instance, the outsourcing of all or a substantial part of functions such as financial control, risk management, internal audit would be considered “material”. Management should carefully consider whether a proposed outsourcing arrangement falls under this Module’s definition of “material”. If in doubt, management should consult with the CBB.

**C4-4.3.4** Category 4 investment firms must retain ultimate responsibility for functions or activities that are outsourced. In particular, licensees must ensure that they continue to meet all their regulatory obligations with respect to outsourced activities.

**C4-4.3.5** Category 4 investment firms must seek the CBB’s prior written approval before committing to a new material outsourcing arrangement in accordance with Paragraph C4-2.1.10. The approval request must contain sufficient detail to demonstrate that relevant issues raised in this Chapter have been addressed.

**C4-4.3.6** Category 4 investment firms must immediately inform the CBB of any material problems encountered with an outsourcing provider.

C4-4.3.7 The CBB reserves the right to require a licensee to terminate or make alternative outsourcing arrangements if, among other reasons, the confidentiality of its customer information was, or is likely to be, breached or the ability of the CBB to carry out its supervisory functions in view of the outsourcing arrangement cannot be assured or executed.

**C4-4.3.8** The CBB requires ongoing access to the outsourced activity, which it may occasionally want to examine itself, through management meetings or on-site examinations.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

### C4-4.3 Outsourcing Risk (continued)

#### *Risk Assessment*

#### C4-4.3.9

**Category 4 investment firms must undertake a thorough risk assessment of an outsourcing proposal, before formally submitting the request for approval to the CBB and committing itself to an agreement.**

C4-4.3.10 Before entering into, or significantly changing, an outsourcing arrangement, a licensee should:

- (a) Analyse how the arrangement will fit with its organisation and reporting structure; business strategy; overall risk profile; and ability to meet its regulatory obligations;
- (b) Consider whether the agreements establishing the arrangement will allow it to monitor and control its operational risk exposure relating to the outsourcing;
- (c) Conduct appropriate due diligence of the service provider's financial stability and expertise;
- (d) Consider how it will ensure a smooth transition of its operations from its current arrangements to a new or changed outsourcing arrangement (including what will happen on the termination of the contract);
- (e) Consider any concentration risk implications such as the business continuity implications that may arise if a single service provider is used by several firms; and
- (f) Analyse the outsourcing provider's financial soundness, its technical competence, its commitment to the arrangement, its reputation, its adherence to international standards, and the associated country risk.

C4-4.3.11 In negotiating its contract with a service provider, a licensee should have regard to:

- (a) Reporting or notification requirements it may wish to impose on the service provider;
- (b) Whether sufficient access will be available to its internal auditors, external auditors and to the CBB;
- (c) Information ownership rights, confidentiality agreements and Chinese walls to protect client and other information (including arrangements at the termination of the contract);
- (d) The adequacy of any guarantees and indemnities;
- (e) The extent to which the service provider must comply with the licensee's policies and procedures (covering, for example, information security);
- (f) The extent to which a service provider will provide business continuity for outsourcing operations;
- (g) The processes for making changes to the outsourcing arrangement and the conditions under which the licensee or service provider can choose to change or terminate the outsourcing arrangement, such as where there is:
  - (i) A change of ownership or control (including insolvency or receivership) of the service provider or firm;
  - (ii) Significant change in the business operations (including sub-contracting) of the service provider or firm; or
  - (iii) Inadequate provision of services that may lead to the firm being unable to meet its regulatory obligations.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

### C4-4.3 Outsourcing Risk (continued)

#### C4-4.3.12

Category 4 investment firms must maintain and regularly review contingency plans to enable them to set up alternative arrangements with minimum disruption to business should the outsourcing contract be terminated, or the outsourcing provider fail. This may involve the identification of alternative outsourcing providers or the provision of the service in-house. These plans must consider how long the transition would take and what interim arrangements would apply.

#### *Outsourcing Controls*

#### C4-4.3.13

All material outsourcing arrangements by a category 4 investment firm must be the subject of a legally enforceable outsourcing agreement. The contractual liabilities and obligations of the outsourcing provider and licensee must be clearly specified in an outsourcing agreement. Where the outsourcing provider interacts directly with a licensee's customers, the contract must, where relevant, reflect the licensee's own standards regarding client care. Once an outsourcing agreement has been entered into, licensees must regularly review the suitability of the outsourcing provider, and the on-going impact of the agreement on their risk profile and systems and controls framework.

#### C4-4.3.14

Category 4 investment firms must ensure that the outsourcing arrangement is in compliance with the Personal Data Protection Law (PDPL) and the outsourcing provider implements adequate safeguards and procedures to protect client data confidentiality. Category 4 investment firms must ensure that they retain title under any outsourcing agreements for data, information and records that form part of the prudential records of the licensee.

#### C4-4.3.15

Category 4 investment firms must ensure that its internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.

#### C4-4.3.16

Category 4 investment firms must also ensure that the CBB inspectors and appointed experts have timely access to any relevant information they may reasonably require to fulfil its responsibilities under the law. Such access must allow the CBB to conduct on-site examinations of the outsourcing provider, if required.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-4: Risk Management

### C4-4.3 Outsourcing Risk (continued)

**C4-4.3.17** Termination under any other circumstances allowed under the agreement must give category 4 investment firms a sufficient notice period in which they can affect a smooth transfer of the service to another provider or bring it back in-house.

#### *Internal Audit Outsourcing*

**C4-4.3.18** Category 4 investment firms must not outsource their internal audit function to the same firm that acts as their external auditors.

**C4-4.3.19** Board and management of licensees must retain responsibility for ensuring that an adequate internal audit programme is implemented, and will be held accountable in this respect by the CBB.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

## C4-5.1 Prudential Reporting

**C4-5.1.1** Category 4 investment firms must complete the relevant sections of the Quarterly Prudential Return ('Form QPR') and submit to the CBB a soft copy of the return within 30 calendar days of each quarter end. Locally incorporated licensees must complete the returns on a consolidated basis while overseas licensees must complete the returns in respect of the business booked in Bahrain branch.

C4-5.1.2 For the purpose of reporting requirements under this Module, the quarter end of a licensee is a 3 month period ending on 31 March, 30 June, 30 September or 31 December.

**C4-5.1.3** Category 4 investment firms 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.

**C4-5.1.4** Category 4 investment firms must complete the online non-financial information related to their institution by accessing the CBB's institutional information system (IIS). 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 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.

**C4-5.1.5** For the purpose of onsite inspection by the CBB, category 4 investment firms must submit the requested documents and completed questionnaires to the Inspection Directorate at the CBB three working days ahead of inspection team entry date.

**C4-5.1.6** Category 4 investment firms 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 ten working days of receipt of such report. Evidentiary documents supporting management's comments must also be included in the response package.

**C4-5.1.7** Category 4 investment firms are required to review the contents of the final 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.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

## C4-5.2 Notification and Approval Requirements

### *Notification Requirements*

#### C4-5.2.1

Category 4 investment firms must notify the CBB if any of the following has occurred, may have occurred or may occur in the near future:

- (a) Any matter which could have a significant adverse impact on the licensee's reputation;
- (b) Any matter which could affect the licensee's ability to continue to provide adequate services to its customers and which could result in serious detriment to a customer;
- (c) Any matter in respect of the licensee that could result in material financial consequences to the financial system or to other licensees;
- (d) A breach of any provision of the CBB laws and regulations;
- (e) If the 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;
- (f) Any legal, professional, administrative or other proceedings instituted against the licensee, controller or a parent undertaking of the licensee that is significant in relation to the licensee's financial resources or its reputation;
- (g) The bringing of a prosecution for, or conviction of, any material offence under any relevant law against the licensee or against any of its approved persons; and
- (h) It becomes aware that an employee, or another person, may have committed a fraud, it suspects fraud and identifies irregularities in its accounting or other records, or that one of its employees may be guilty of serious misconduct concerning his honesty or integrity.

#### C4-5.2.2

Except in instances where the CBB has initiated the following actions, category 4 investment firms 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 licensee, a controller or a parent undertaking of the licensee;
- (b) An application to dissolve a controller or a parent undertaking of the licensee;
- (c) The presentation of a petition for the winding up of a controller or a parent undertaking of the licensee;
- (d) The making of any proposals, or the making of, a composition or arrangement with any one or more of the 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 a parent undertaking of the licensee;



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

## C4-5.2 Notification and Approval Requirements (continued)

- (f) The appointment of a receiver to a controller or 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 licensee, a controller or a parent undertaking of the licensee under the Reorganization and Bankruptcy Law or similar legislation in another jurisdiction.

### C4-5.2.3

Category 4 investment firms 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).

### C4-5.2.4

Where conduct of business standards applied by overseas branches and subsidiaries of a category 4 investment firm falls below the standards set out in this Module, the licensee must notify the CBB of the fact.

### *Approval Requirements*

### C4-5.2.5

Category 4 investment firms must obtain prior written approval from the CBB for the following

- (a) A change in its registered/trade name. The request must include the proposed new name and the date it intends to implement the change;
- (b) A change in the address of the licensee's principal place of business in Bahrain. The request must include the proposed new address and the date it intends to implement the change;
- (c) A change in its legal status that may, in any way, affect its relationship with or limit its liability to its customers;
- (d) A change in its authorised or issued capital. If the licensee is 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; and
- (e) A change in its Memorandum or Articles of Association.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

### C4-5.3 Information Gathering by the CBB

#### C4-5.3.1

**Category 4 investment firms must provide all information that the CBB may reasonably request in order to discharge its regulatory obligations. This includes providing all relevant information and assistance to the CBB inspectors and appointed experts on demand.**

C4-5.3.2 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 licensee.

C4-5.3.3 The CBB may ask a category 4 investment firm 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 the licensee, pass on to those supervisors or agencies information that it already has in its possession.

#### C4-5.3.4

**Category 4 investment firms 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 law.**

#### C4-5.3.5

**Category 4 investment firms 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 licensee; and**
- (b) **Complete, in that it should include everything which the CBB would reasonably and ordinarily expect to have.**

C4-5.3.6 The CBB uses various methods of information gathering on its own initiative which require the cooperation of the category 4 investment firm:

- (a) Representatives of the CBB may make onsite visits at the premises of the licensee. These visits may be made on a regular basis, or on a sample basis, for special purposes, or when the CBB has a particular reason for visiting a licensee;
- (b) Appointees of the CBB may also make onsite visits at the premises of the 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.
- (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, by emails, at meetings or in writing;



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

### C4-5.3 Information Gathering by the CBB (continued)

#### *Appointed Experts*

C4-5.3.7 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.

C4-5.3.8

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.

C4-5.3.9

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 licensee concerned).

C4-5.3.10

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

C4-5.3.11

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.

C4-5.3.12

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.

C4-5.3.13

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.



MODULE	C4: Category 4 Investment Firms
CHAPTER	C4-5: CBB Reporting

### C4-5.3 Information Gathering by the CBB (continued)

#### C4-5.3.14

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, 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.

#### C4-5.3.15

Appointed experts must keep information obtained during their arrangement confidential and not divulge it to a third party except with the CBB's permission and/or unless required by Bahrain Law.

#### C4-5.3.16

The CBB may, at its discretion, call for a trilateral meeting(s) to be held between the CBB and representatives of the relevant category 4 investment firm licensee and the appointed experts. This meeting will provide an opportunity to discuss the appointed experts' examination of and report on the licensee.