



# **FINANCING COMPANIES AUTHORISATION MODULE**

<b>MODULE:</b>	<b>AU(Authorisation)</b>
<b>Table of Contents</b>	

		Date Last Changed
<b>AU-A</b>	<b>Introduction</b>	
	AU-A.1 Purpose	07/2015
	AU-A.2 Module History	07/2022
<b>AU-B</b>	<b>Scope of Application</b>	
	AU-B.1 Scope of Application	01/2013
<b>AU-1</b>	<b>Authorisation Requirements</b>	
	AU-1.1 Licensing	07/2019
	AU-1.2 Approved Persons	01/2016
	AU-1.3 Definition of Regulated Financing Company Services	07/2022
	AU-1.4 Shari'a Compliant Transactions	01/2013
<b>AU-2</b>	<b>Licensing Conditions</b>	
	AU-2.1 Condition 1: Legal Status	01/2013
	AU-2.2 Condition 2: Mind and Management	01/2013
	AU-2.3 Condition 3: Controllers	01/2013
	AU-2.4 Condition 4: Board and Employees	01/2013
	AU-2.5 Condition 5: Financial Resources	07/2022
	AU-2.6 Condition 6: Systems and Controls	01/2013
	AU-2.7 Condition 7: External Auditors	01/2013
	AU-2.8 Condition 8: Other Requirements	01/2014
<b>AU-3</b>	<b>Approved Persons Conditions</b>	
	AU-3.1 Conditions: 'Fit and Proper'	01/2016
	AU-3.2 [This Section was deleted in January 2016]	01/2016
<b>AU-4</b>	<b>Information Requirements and Processes</b>	
	AU-4.1 Licensing	10/2019
	AU-4.2 Authorisation of a Branch or Subsidiary	01/2013
	AU-4.3 Approved Persons	01/2021
	AU-4.4 Variations to a License	01/2013
	AU-4.5 Withdrawal of a License or Closure of a Branch	01/2013
	AU-4.6 Publication of the Decision to Grant, Cancel or Amend a License	10/2019
<b>AU-5</b>	<b>License Fees</b>	
	AU-5.1 License Application Fees	01/2013
	AU-5.2 Annual License Fees	01/2014



MODULE	AU: Authorisation
CHAPTER	AU-A: Introduction

## AU-A.1 Purpose

### *Executive Summary*

- AU-A.1.1 The executive summary only provides an overview. For detailed rules, reference must be made to the individual Rules outlined in the remainder of this Module.
- AU-A.1.2 Module AU (Authorisation) sets out the Central Bank of Bahrain's ('CBB's) approach to licensing providers of regulated financing company services in the Kingdom of Bahrain. It also sets out CBB requirements for approving persons undertaking key functions in those providers.
- AU-A.1.3 Persons undertaking certain functions in relation to licensees require prior CBB approval. These functions (called 'controlled functions') include Directors and members of senior management. The controlled functions regime supplements the licensing regime by ensuring that key persons involved in the running of licensees are fit and proper. Those authorised by the CBB to undertake controlled functions are called approved persons.

### *Retaining Authorised Status*

- AU-A.1.4** The requirements set out in Chapters AU-2 and AU-3 represent the minimum conditions that have to be met in each case, both at the point of authorisation and on an on-going basis thereafter, in order for authorised status to be retained.



MODULE	AU:	Authorisation
CHAPTER	AU-A:	Introduction

## AU-A.1 Purpose (continued)

### *Legal Basis*

#### AU-A.1.5

This Module contains the CBB's Directive, Regulations and Resolutions (as amended from time to time) regarding authorisation under Volume 5 of the CBB Rulebook. It is applicable to all licensees (as well as to approved persons) and is issued under the powers available to the CBB under Articles 37 to 42, 44 to 48 and 180 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It also includes the requirements contained in Resolution No (1) of 2007 with respect to determining fees categories due for licenses and services provided by the CBB. It contains requirements under Regulation No (1) of 2007 pertaining to the CBB's regulated services issued under Article 39 of the CBB Law and those conditions of granting a license for the provision of regulated services as prescribed under Resolution No (43) of 2011 and is issued under the powers available to the CBB under Article 44(c). The Module contains requirements under Resolution No.(16) for the year 2012 including the prohibition of marketing financial services pursuant to Article 42 of the CBB Law. This Module contains the prior approval requirements for approved persons under Resolution No (23) of 2015. The Directive, Resolutions and Regulations in this Module are applicable to all financing company licensees (including their approved persons).

#### AU-A.1.6

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

#### AU-A.1.7

Persons wishing to undertake regulated financing company services are required to be licensed by the CBB as a financing company licensee.



MODULE	AU:	Authorisation
CHAPTER	AU-A:	Introduction

## AU-A.1 Purpose (continued)

### *Licensing Conditions*

- AU-A.1.8 Financing company licensees are subject to 8 licensing conditions, mostly specified at a high-level in Module AU, and further expanded in underlying subject Modules (such as Module CA). These licensing conditions are broadly equivalent to the standards applied in other Volumes of the CBB Rulebook, to other license categories, and are consistent with international good practice.

### *Information Requirements and Processes*

- AU-A.1.9 Chapter AU-3 specifies the processes and information requirements that have to be followed for applicants seeking a financing company license, as well as existing licensees seeking to vary the scope of their license, by adding new regulated activities. It also covers the voluntary surrender of a license, or its cancellation by the CBB.



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-A: Introduction</b>

## AU-A.2 Module History

### *Evolution of Module*

AU-A.2.1 This Module was first issued in January 2013. All subsequent changes to this Module are annotated with the end-calendar quarter date in which the change was made. UG-3 provides further details on Rulebook maintenance and version control.

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

Module Ref.	Change Date	Description of Changes
AU-5.2	07/2013	Amended due date and collection process for annual license fee.
AU-2.8.1	01/2014	Corrected reference to proper accounting standards.
AU-5.2.7B and AU-5.2.7C	01/2014	Added requirements for payment of annual fees for SPVs.
AU-1.2.2	04/2014	Updated controlled functions.
AU-A.1.5	07/2015	Legal basis updated to reflect Resolution No (23) of 2015.
AU-3.2.1	07/2015	Added cross reference to Module TC.
AU-4.3	07/2015	Amended to be in line with Resolution No (23) of 2015 on Prior Approval Requirements for Approved Persons.
AU-1.2	01/2016	Clarified general requirements for Approved Persons.
AU-3	01/2016	Amended to be in line with Resolution No (23) of 2015 on Prior Approval Requirements for Approved Persons.
AU-4.3	01/2016	Minor amendments to be aligned with other Volumes of the Rulebook.
AU-4.6	07/2017	Added new Section on Publication of the Decision to Grant, Cancel or Amend a License.
AU-1.1.9	07/2019	Amended Paragraph to reflect online submission of Form 1.
AU-4.1.22	10/2019	Changed from Rule to Guidance.
AU-4.1.24	10/2019	Changed from Rule to Guidance.
AU-4.6.1	10/2019	Changed from Rule to Guidance.
AU-1.3.1A	10/2020	Added a new Paragraph on compliance with AAOIFI Shari'a Standards.
AU-4.3.10A	01/2021	Added a new Paragraph on compliance of approved persons with the fit and proper requirement.
AU-1.3.1(d)	07/2022	Amended Subparagraph on means of payment.
AU-1.3.1B	07/2022	Added a new Paragraph on offering a limited range of financing activity.
AU-1.3.14	07/2022	Deleted Paragraph.
AU-2.5.2	07/2022	Amended Paragraph on financial resources.

### *Superseded Requirements*

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

Circular / other reference	Provision	Subject
Standard Conditions and Licensing criteria for financing companies (conventional)	All articles	Scope of license and licensing conditions.
Standard Conditions and Licensing criteria for Islamic financing companies	All articles	Scope of license and licensing conditions.



MODULE	AU: Authorisation
CHAPTER	AU-B: Scope of Application

## AU-B.1 Scope of Application

### AU-B.1.1

The content of this Module applies to all financing company licensees authorised in the Kingdom of Bahrain, thereafter referred to in this Module as licensees.

#### AU-B.1.2

Two types of authorisation are prescribed:

- Any person seeking to provide a regulated financing company service within or from the Kingdom of Bahrain must hold the appropriate CBB license (see AU-1.1); and
- Natural persons wishing to perform a controlled function in a licensee also require prior CBB's approval, as an approved person (see AU-1.2).

#### AU-B.1.3

The Authorisation requirements in Chapter AU-1 have general applicability, in that they prevent any person from providing (or seeking to provide) regulated financing company services within or from the Kingdom of Bahrain, unless they have been licensed as a financing company (conventional or Islamic) by the CBB (see Rule AU-1.1.1).

#### AU-B.1.4

The remaining requirements in Chapters AU-1 to AU-3 (besides those mentioned in Section AU-B.2 above) apply to all those licensed by the CBB as a financing company licensee, or which are in the process of seeking such a license. They apply regardless of whether the person concerned is incorporated in the Kingdom of Bahrain, or in an overseas jurisdiction, unless otherwise specified.

#### AU-B.1.5

Chapter AU-2 applies to licensees (not just applicants), since licensing conditions have to be met on a continuous basis by licensees. Similarly, Chapter AU-3 applies to approved persons on a continuous basis; it also applies to licensees seeking an approved person authorisation. Chapter AU-4 contains requirements applicable to licensees, with respect to the starting up of their operations, as well as to licensees and approved persons, with respect to the amendment or cancellation of their authorised status. Finally, Section AU-5.2 imposes annual fees on licensees.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.1 Licensing

### *General Prohibitions*

#### AU-1.1.1

No person may:

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

AU-1.1.2 In accordance with Resolution No.(16) for the year 2012 and for the purpose of Subparagraph AU-1.1.1(c), the word ‘market’ refers to any promotion, offering, announcement, advertising, broadcast or any other means of communication made for the purpose of inducing recipients to purchase or otherwise acquire financial services in return for monetary payment or some other form of valuable consideration.

AU-1.1.3 Persons in breach of Subparagraph AU-1.1.1(c) are considered in breach of Resolution No.(16) for the year 2012 and are subject to penalties under Articles 129 and 161 of the CBB Law (see also Section EN-9.3).

#### AU-1.1.4

Licensees are prohibited from taking deposits or any similar liabilities and Shari’a compliant investment accounts.

#### AU-1.1.5

Only persons licensed to undertake regulated financing services (or regulated Islamic financing services), may use the term ‘financing company’ in their corporate or trading names, or otherwise hold themselves out to be a financing company.

AU-1.1.6 Licensees are not obliged to include the word ‘financing company’ in their corporate or trading names; however, they may be required to make clear their regulatory status in their letter heads, customer communications, website and so on (See Paragraph GR-2.2.1).





<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-1: Requirement to Hold a License</b>

## **AU-1.1 Financing Company Licensees (continued)**

AU-1.1.7 For the purposes of Rule AU-1.1.2, persons will be considered in breach of this requirement if they attempt to operate as, or incorporate a financing company in Bahrain with a name containing the word “financing company” (or the equivalents in any language), without holding the appropriate CBB license or obtaining the prior approval of the CBB.

**AU-1.1.8** Persons wishing to be licensed to undertake regulated financing company services within or from the Kingdom of Bahrain must apply in writing to the CBB.

**AU-1.1.9** An application for a license must fill in the Application form (Form 1) online, available on the CBB website under E-services/online Forms and must contain:

- (a) A business plan specifying the type of business to be conducted;
- (b) Application forms (Form 2) for all controllers; and
- (c) Application forms (Form 3) for all controlled functions.

AU-1.1.10 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.

AU-1.1.11 Detailed rules and guidance regarding information requirements and processes for license applications can be found in Section AU-4.1. As specified in Paragraph AU-4.1.14, the CBB will provide a formal decision on license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the CBB.

AU-1.1.12 In granting new licenses, the CBB will specify the specific types of regulated financing company service for which a license has been granted.

**AU-1.1.13** All applicants for financing company licenses must satisfy the CBB that they meet, by the date of their license, the minimum conditions for licensing, as specified in Chapter AU-2. Once licensed, licensees must maintain these criteria on an on-going basis.

**AU-1.1.14** Licensees must not carry on any commercial business in the Kingdom of Bahrain or elsewhere other than financing business and activities directly arising from or incidental to that business.



MODULE	AU: Authorisation
CHAPTER	AU-1: Requirement to Hold a License

## AU-1.1 Financing Company Licensees (continued)

- AU-1.1.15 Rule AU-1.1.14 is intended to restrict licensees from undertaking any material non-financial business activities. The Rule does not prevent a financing company undertaking commercial activities if these directly arise from their financing business: for instance, in the context of Islamic contracts, such as murabaha, ijara and musharaka, where the company may hold the physical assets being financed or leased. Nor does it restrict a licensee from undertaking commercial activities if, in the judgment of the CBB, they are incidental and do not detract from the financial nature of the financing companies operations.
- AU-1.1.16 Rule AU-1.1.14 applies to the legal entity holding the financing company license. A licensee may thus own subsidiaries that undertake non-financial activities, although the CBB generally does not support the development of significant commercial activities within a licensee's group.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.2 Approved Persons

### *General Requirement*

**AU-1.2.1** Licensees must obtain the CBB's prior written approval for any person wishing to undertake a controlled function at a licensee. The approval from the CBB must be obtained prior to their appointment.

**AU-1.2.2** Controlled functions are those functions occupied by board members and persons in executive positions and include:

- (a) Member of the Board of Directors;
- (b) Chief Executive or General Manager and their Deputies;
- (c) Head of function;
- (d) Compliance Officer;
- (e) Money Laundering Reporting Officer (MLRO); and
- (f) Head of Shari'a review.

**AU-1.2.3** Prior approval is required for controlled functions (a), (b), (c), (d) and (e). Controlled functions (d) and (e) may be combined, however (see also FC-4.1, regarding the MLRO function). Controlled function (f) does not require prior approval instead, notification only is required, once the person concerned has accepted to undertake that function.

### *Basis for Approval*

AU-1.2.4 Approval under Paragraph AU-1.2.1 is only granted by the CBB, if it is satisfied that the person is fit and proper to hold the particular position in the licensee concerned. 'Fit and proper' is determined by the CBB on a case-by-case basis. The definition of 'fit and proper' and associated guidance is provided in Sections AU-3.1 and AU-3.2 respectively.

### *Definitions*

**AU-1.2.5** Director is any person who occupies the position of a Director, as defined in Article 173 of the Commercial Companies Law (Legislative Decree No. 21 of 2001).

AU-1.2.6 The fact that a person may have 'Director' in their job title does not of itself make them a Director within the meaning of the definition noted in Paragraph AU-1.5.5. For example, a 'Director of IT', is not necessarily a member of the Board of Directors and therefore may not fall under the definition of Paragraph AU-1.5.5.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.2 Approved Persons (continued)

**AU-1.2.7** The Chief Executive or General Manager means a person who is responsible for the conduct of the licensee (regardless of actual title). The Chief Executive or General Manager must be resident in Bahrain. This person is responsible for the conduct of the whole of the firm.

**AU-1.2.8** 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.

AU-1.2.9 Whether a person is a head of function will depend on the facts in each case and is not determined by the presence or absence of the word in their job title. Examples of head of function might include, depending on the scale, nature and complexity of the business, a deputy Chief Executive; heads of departments such as Risk Management, Compliance or Internal Audit; or any front office functions or the Chief Financial Officer.

**AU-1.2.10** Where a licensee is in doubt as to whether a function should be considered a controlled function it must discuss the case with the CBB.

**AU-1.2.11** The controlled function of compliance officer is defined in accordance with the compliance function under Section HC-6.4. The controlled functions of Money Laundering Reporting Officer is defined under Chapter FC-4.

**AU-1.2.12** All licensees must designate an employee, of appropriate standing and resident in Bahrain, as compliance officer. The duties of the compliance officer include:

- (a) Assisting senior management to identify and assess the main compliance risks facing the licensees and the plans to manage them;
- (b) Advising senior management on compliance laws, rules and standards, including keeping them informed on developments in the area;
- (c) Assisting senior management in educating staff on compliance issues, and acting as a contact point within the licensee for compliance queries from staff members;



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-1: Authorisation Requirements</b>

## AU-1.2 Approved Persons (continued)

### AU-1.2.12

(continued)

- (d) Establishing written guidance to staff on the appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- (e) On a pro-active basis, identifying, documenting and assessing the compliance risks associated with the licensee's business activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships;
- (f) Monitoring and testing compliance by performing sufficient and representative compliance testing; and
- (g) Reporting on a regular basis to the board of directors or the audit committee of the board of directors.



MODULE	AU: Authorisation
CHAPTER	AU-1: Requirement to Hold a License

### AU-1.3 Definition of Regulated Financing Company Services

**AU-1.3.1** Regulated financing company services are any of the following activities, carried on by way of business:

- (a) Offering instalment credit;
- (b) Offering revolving credit facilities (such as credit cards);
- (c) Offering Shari'a financing contracts; and
- (d) Issuing/administering means of payment (charge or prepaid cards, whether physical or digital).

**AU-1.3.1A** Where licensees are undertaking regulated activities in accordance with Shari'a, all transactions and contracts concluded by regulated financing company services must comply with Sharia standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The validity of the contract or transaction is not impacted, if at a later date, the relevant AAOIFI Sharia standards are amended.

**AU-1.3.1B** A financing company licensee may choose to offer a limited range of financing activity as determined by its business plan provided that such activity includes short term instalment credits only.

**AU-1.3.2** Upon application, the CBB may exclude specific transactions from the definition of regulated financing company services.

**AU-1.3.3** For the purposes of Rule AU-1.3.1, carrying on a regulated financing company service by way of business means:

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

**AU-1.3.4** Licensees are allowed to transact with both residents and non-residents of the Kingdom of Bahrain, and in both Bahrain Dinar and foreign currencies.

AU-1.3.5 Licensees may undertake transactions with both Bahraini residents and non-residents.

AU-1.3.6 Licensees should note that the same legal entity cannot combine regulated financing company services with other regulated services, such as regulated insurance services and regulated ancillary services.



MODULE	AU: Authorisation
CHAPTER	AU-1: Requirement to Hold a License

## AU-1.3 Definition of Regulated Financing Company Services (continued)

### *General Exclusions*

#### AU-1.3.7

A person does not carry on an activity constituting a regulated financing company service if the activity:

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

#### AU-1.3.8

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

#### AU-1.3.9

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

#### AU-1.3.10

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

#### AU-1.3.11

A person does not carry on an activity constituting a regulated financing company service if that person is a government body charged with the management of financial instruments on behalf of a government or public body or an exempt person, as specified by Royal decree.



MODULE	AU: Authorisation
CHAPTER	AU-1: Requirement to Hold a License

### AU-1.3 Definition of Regulated Financing Company Services (continued)

#### *Providing Credit*

##### AU-1.3.12

Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit and providing credit by way of finance leases and factoring.

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

##### AU-1.3.13

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

##### AU-1.3.14

[This Paragraph was deleted in July 2022].





MODULE	AU: Authorisation
CHAPTER	AU-1: Requirement to Hold a License

## AU-1.4 Shari'a Compliant Transactions

### *General Requirements for all Conventional Financing Companies*

**AU-1.4.1** Conventional financing company licensees may not hold themselves out as an Islamic financing company. Conventional financing company licensees are allowed to enter into activities (a) to (c) listed in Rule AU-1.3.1 under the conditions outlined in the remainder of this Section, subject to conditions outlined in Section AU-1.2 (concerning facilities offered to Bahrain residents and facilities in Bahrain Dinar in particular).

**AU-1.4.2** When offering any of the Shari'a compliant activities listed in Rule AU-1.3.1, conventional licensees must have staff trained in Shari'a compliant financing business. The licensee must also disclose in the notes to its Annual Report/Financial Statement all quantitative and qualitative disclosures on its Shari'a compliant business as required by AAOIFI accounting and auditing standards.

### *Additional Requirements for Conventional Financing Companies*

**AU-1.4.3** Conventional licensees may provide Shari'a compliant activities (b) and (c) listed in Rule AU-1.3.1 in any amount and in any currency to Bahrain-resident individuals subject to the following conditions:

- Shari'a compliant financing transactions to be undertaken through a special counter or branch as deemed necessary by the licensee;
- The licensee must maintain separate books for Shari'a compliant financing activities to ensure no co-mingling of conventional and Islamic funds;
- The licensee must have a Shari'a Compliant Reviewer; and
- The licensee must establish a Shari'a Supervisory Committee with a minimum of three board members. The board may have global authority for all Shari'a compliant business or may have authority purely for Islamic business booked in Bahrain.



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.1 Condition 1: Legal Status

AU-2.1.1	The legal status of a <u>licensee</u> must be a Bahraini joint stock company (BSC).
----------	---



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.2 Condition 2: Mind and Management

**AU-2.2.1** Licensees with their Registered Office in the Kingdom of Bahrain must maintain their Head Office in the Kingdom.

**AU-2.2.2** The CBB requires that all approved persons occupying controlled functions outlined in Paragraph AU-1.2.2, except for Subparagraphs (a) member of the board of directors and (f) member of the Shari'a Supervisory Board, be resident in Bahrain.

AU-2.2.3 For regional groups, the CBB may consider other arrangements, subject to such arrangements meeting the CBB's supervisory objectives.



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

### AU-2.3 Condition 3: Controllers

#### AU-2.3.1

Licensees must satisfy the CBB that their controllers are suitable and pose no undue risks to the licensee. Licensees must also satisfy the CBB that their close links do not prevent the effective supervision of the licensee by the CBB and otherwise pose no undue risks to the licensee.

AU-2.3.2 Chapters GR-5 and GR-6 contain the CBB's requirements and definitions regarding controllers and close links.

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

AU-2.3.4 A licensee has close links with its subsidiaries, with its parent undertakings, and with subsidiaries of its parent undertakings. It also has close links with any entity in which the licensee, its subsidiaries, its parent undertakings, and the subsidiaries of its parent undertakings has an equity interest of more than 20% (either in terms of capital or voting rights). The CBB seeks to ensure that these closely linked entities do not prevent adequate consolidated supervision being applied to financial entities within the group, and that other group entities do not pose any material financial, reputational or other risks to the licensee.

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



MODULE	AU:	Authorisation
CHAPTER	AU-2:	Licensing Conditions

## AU-2.4 Condition 4: Board and Employees

### AU-2.4.1

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

### AU-2.4.2

The definition of controlled functions is contained in Paragraph AU-1.5.2, whilst Chapter AU-3 sets out CBB's approved persons requirements.

### AU-2.4.3

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



MODULE	AU:	Authorisation
CHAPTER	AU-2:	Licensing Conditions

## AU-2.5 Condition 5: Financial Resources

### *Capital Funds*

#### AU-2.5.1

Licensees must maintain a level of financial resources, as agreed with the CBB, adequate for the level of business proposed.

#### AU-2.5.2

Licensees must fully comply with the capital requirements contained in Module CA (Capital Adequacy).

### *Liquidity*

#### AU-2.5.3

Licensees must maintain sufficient liquid assets to meet their obligations as they fall due in the normal course of their business, as required under Module LM. Licensees must agree a liquidity management policy with the CBB.



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.6 Condition 6: Systems and Controls

### AU-2.6.1

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

### AU-2.6.2

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



MODULE	AU:	Authorisation
CHAPTER	AU-2:	Licensing Conditions

## AU-2.7 Condition 7: External Auditors

### AU-2.7.1

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





MODULE	AU:	Authorisation
CHAPTER	AU-2:	Licensing Conditions

## AU-2.8 Condition 8: Other Requirements

### *Books and Records*

#### AU-2.8.1

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

### *Provision of Information*

#### AU-2.8.2

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

### *General Conduct*

#### AU-2.8.3

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

### *Additional Conditions*

#### AU-2.8.4

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



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-2: Licensing Conditions</b>

## **AU-2.8 Condition 8: Other Requirements (continued)**

- AU-2.8.5 Licensees are subject to the provisions of the CBB Law. These include the right of the CBB to impose such terms and conditions, as it may deem necessary when issuing a license, as specified in Article 45 of the CBB Law. Thus, when granting a license, the CBB specifies the regulated financing company services that the licensee may undertake. Licensees must respect the scope of their license.
- AU-2.8.6 In addition, the CBB may impose additional restrictions or requirements, beyond those already specified in Volume 5, to address specific risks. For instance, a license may be granted subject to strict limitations on intra-group transactions.



MODULE	AU: Authorisation
CHAPTER	AU-3: Approved Persons Conditions

## AU-3.1 Approved Persons Conditions

### Condition 1: 'Fit and Proper'

#### AU-3.1.1

Licensees seeking an approved person authorisation for an individual, must satisfy the CBB that the individual concerned is 'fit and proper' to undertake the controlled function in question.

#### AU-3.1.2

The authorisation requirement for persons nominated to carry out controlled functions is contained in Section AU-1.5. The authorisation process is described in Section AU-4.3.

#### AU-3.1.3

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

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



MODULE	AU: Authorisation
CHAPTER	AU-3: Approved Persons Conditions

## AU-3.1 Approved Persons Conditions (continued)

AU-3.1.4 In assessing the conditions prescribed in Rule AU-3.1.3, the CBB will take into account the criteria contained in Paragraph AU-3.1.5. The CBB reviews each application on a case-by-case basis, taking into account all relevant circumstances. A person may be considered 'fit and proper' to undertake one type of controlled function but not another, depending on the function's job size and required levels of experience and expertise. Similarly, a person approved to undertake a controlled function in one licensee may not be considered to have sufficient expertise and experience to undertake nominally the same controlled function but in a much bigger licensee.

AU-3.1.5 In assessing a person's fitness and propriety, the CBB will also consider previous professional and personal conduct (in Bahrain or elsewhere) including, but not limited to, the following:

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

AU-3.1.6 With respect to Paragraph AU-3.1.5, the CBB will take into account the length of time since any such event occurred, as well as the seriousness of the matter in question.



MODULE	AU: Authorisation
CHAPTER	AU-3: Approved Persons Conditions

## AU-3.1 Approved Persons Conditions (continued)

**AU-3.1.7** 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.

AU-3.1.8 In determining where there may be a conflict of interest arising, factors that may be considered will include whether:

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

AU-3.1.9 Further guidance on the process for assessing a person's 'fit and proper' status is given in Module EN (Enforcement): see Chapter EN-8.



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-3: Approved Persons Conditions</b>

## **AU-3.2 [This Section was deleted in January 2016]**

AU-3.2.1 [This Paragraph was deleted in January 2016.]

AU-3.2.2 [This Paragraph was deleted in January 2016.]

AU-3.2.3 [This Paragraph was moved to Paragraph AU-3.1.9 in January 2016.]



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## **AU-4.1 Licensing**

### **Application Form and Documents**

#### **AU-4.1.1**

Applicants for a license must submit a duly completed Form 1 (Application for a License), under cover of a letter signed by an authorised signatory of the applicant marked for the attention of the Director, Licensing and Policy Directorate. The application letter must be accompanied by the documents listed in Paragraph AU-4.1.4, unless otherwise directed by the CBB.

#### **AU-4.1.2**

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). See below, for further details on the licensing process and time-lines.

#### **AU-4.1.3**

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

#### **AU-4.1.4**

Unless otherwise directed by the CBB, the following documents must be provided together with the covering letter referred in Paragraph AU-4.1.1 above in support of a license application:

- (a) A duly completed Form 2 (Application for Authorisation of Controller) for each controller of the proposed licensee;
- (b) A duly completed Form 3 (Application for Approved Person status), for each individual proposed to undertake controlled functions (as defined in Rule AU-1.2.2) in the proposed licensee;
- (c) A comprehensive business plan for the application, addressing the matters described in AU-4.1.6;
- (d) Where the applicant is an existing institution, a copy of the applicant's commercial registration;
- (e) Any relevant Private Placement Memoranda or public offering documents (if funds are to be raised by external shareholders);
- (f) Where the applicant is a corporate body, a certified copy of a Board resolution of the applicant along with minutes of the concerned meeting, confirming the board's decision to seek a CBB financing company license;



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## **AU-4.1 Licensing (continued)**

- (g) In the case of applicants that are part of a regulated group, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the group is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy and solvency requirements;
- (h) Copies of the audited financial statements of the applicant's major shareholder and/or group (as directed by the CBB), for the three years immediately prior to the date of application; and
- (i) A draft copy of the applicant's (and parent's where applicable) memorandum and articles of association, addressing the matters described in AU-4.1.7.

AU-4.1.5 The CBB may require that an acceptably worded letter of guarantee be provided in support of the application for a license. Where the application for the license is for an incorporated entity, the CBB may seek a letter of guarantee from the major shareholder in control of the licensee.

AU-4.1.6 The business plan submitted in support of an application should include:

- (a) An outline of the history of the applicant and its shareholders;
- (b) The reasons for applying for a license, including the applicant's strategy and market objectives;
- (c) The proposed type of activities to be carried on by the applicant in/from the Kingdom of Bahrain;
- (d) The proposed Board and senior management of the applicant and the proposed organisational structure of the applicant;
- (e) An 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
- (f) An opening balance sheet for the applicant, together with a three-year financial projection, with all assumptions clearly outlined, demonstrating that the applicant will be able to meet applicable leverage and liquidity requirements.





<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## AU-4.1 Licensing (continued)

### AU-4.1.7

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

### AU-4.1.8

Where a new financing company's capital is being financed by a private placement, the CBB will verify that the contents of the Private Placement Memorandum (PPM) are consistent with other information supplied to the CBB, notably the business plan, and otherwise meet any applicable regulatory requirements with respect to PPM documents. The CBB's review of the PPM does not in any way constitute an approval or endorsement as to any claims it may contain as to the future value of the proposed licensee.

### AU-4.1.9

The CBB will not license applicants without a core group of sponsoring shareholders (who can demonstrate a strong business track record with relevant expertise), and where failure of the private placement to raise its targeted amount would leave the institution unable to comply with the CBB's minimum capital requirements. The CBB may, on a case-by-case basis, require that at least one shareholder is a regulated financial institution which holds 20% of the applicant's shares.

### AU-4.1.10

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

### AU-4.1.11

Before the final approval is granted to a licensee, confirmation from a retail bank addressed to the CBB that the licensee's capital (injected funds) – as specified in the business plan submitted under Rule AU-4.1.4 – has been paid in, must be provided to the CBB.

### AU-4.1.12

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

### AU-4.1.13

Failure to inform the CBB of the changes specified in AU-4.1.12 is likely to be viewed as a failure to provide full and open disclosure of information, and thus a failure to meet licensing condition AU-2.8.2.



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## **AU-4.1 Licensing (continued)**

### ***Licensing Process and Timelines***

- AU-4.1.14 By law, the 60-day time limit referred to in Paragraph AU-4.1.2 only applies once the application is complete and all required information (which may include any clarifications requested by the CBB) and documents have been provided. This means that all the items specified in Rule AU-4.1.4 have to be provided, before the CBB may issue a license.
- AU-4.1.15 The CBB recognises, however, that applicants may find it difficult to secure suitable senior management (refer AU-4.1.4(b) above) in the absence of preliminary assurances regarding the likelihood of obtaining a license.
- AU-4.1.16 Therefore, applicants may first submit an unsigned Form 1 in draft, together with as many as possible of the items specified in Rule AU-4.1.4. This draft application should contain at least items AU-4.1.4(a); AU-4.1.4(b), with respect to proposed Directors (but not necessarily senior management); AU-4.1.4(c); AU-4.1.4(d); and AU-4.1.4(f) to AU-4.1.4(i) inclusive.
- AU-4.1.17 On the basis of the information specified in Paragraph AU-4.1.16, the 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.
- AU-4.1.18 An ‘in principle’ confirmation does not constitute a license approval, nor does it commit the CBB to issuing a license. However, it provides sufficient assurance for an applicant to complete certain practical steps, such as securing suitable executive staff that satisfy CBB’s ‘fit and proper’ requirements. Once this has been done, the applicant may finalise its application, by submitting the remaining documents required under Rule AU-4.1.4 and, once assessed as complete by the CBB, a signed and dated final version of Form 1. However, a Bahrain company proposing to undertake financial services activities would not be able to obtain a commercial registration from the Ministry of Industry and Commerce unless they receive the final approval from the CBB.
- AU-4.1.19 Regardless of whether an applicant submits a draft application or not, all potential applicants are strongly encouraged to contact the CBB at an early stage to discuss their plans and associated requirements. The Licensing & Policy Directorate would normally expect to hold at least one pre-application meeting with an applicant, prior to receiving an application (either in draft or in final form).



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## AU-4.1 Licensing (continued)

AU-4.1.20 Potential applicants should initiate pre-application meetings in writing, setting out a short summary of their proposed business and any issues or questions that they may have already identified, once they have a clear business proposition in mind and have undertaken their preliminary research. The CBB can then guide the applicant on the specific areas in the Rulebook that will apply to them and the relevant requirements that they must address in their application.

**AU-4.1.21** At no point should an applicant hold themselves out as having been licensed by the CBB, prior to receiving formal written notification of the fact in accordance with Rule AU-4.1.22 below. Failure to do so may constitute grounds for refusing an application and result in a contravention of Articles 40 and 41 of the CBB Law (which carries a maximum penalty of BD 1 million).

### *Granting or Refusal of License*

AU-4.1.22 To be granted a license, an applicant should demonstrate compliance with the applicable requirements of the CBB Law and this Module. 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). The license may be subject to such terms and conditions as the CBB deems necessary for the additional conditions being met.

AU-4.1.23 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.

AU-4.1.24 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, as per the appeal procedures specified in the notice; these procedures will comply with the provisions contained in Article 46 of the CBB Law.



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.1 Licensing (continued)

### *Starting Operations*

#### AU-4.1.25

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

- (a) A detailed action plan for establishing the operations and supporting infrastructure of the licensee, such as the completion of written policies and procedures, and recruitment of remaining employees (having regard to the time limit set by Article 48 (c) of the CBB Law);
- (b) The registered office address and details of premises to be used to carry out the business of the proposed licensee;
- (c) The address in the Kingdom of Bahrain where full business records will be kept;
- (d) The licensee's contact details including telephone and fax number, e-mail address and website;
- (e) A description of the business continuity plan;
- (f) A description of the IT system that will be used, including details of how IT systems and other records will be backed up;
- (g) A copy of the external auditor's acceptance to act as an external auditor for the applicant;
- (h) A copy of the applicant's notarised memorandum and articles of association, addressing the matters described in Paragraph AU-4.1.6;
- (i) A copy of the Ministry of Industry & Commerce commercial registration certificate in Arabic and English languages;
- (j) An updated organisation chart showing the reporting lines, committees (if any) and including the names of the persons undertaking the controlled functions;
- (k) A copy of the licensee's business card and any written communication (including stationery, website, e-mail, business documentation, etc.) including a statement that the financing company is licensed by the CBB; and
- (l) Any other information as may be specified by the CBB.

#### AU-4.1.26

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.

AU-4.1.27 The procedures for cancelling licenses are contained in Section AU-4.3.



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.2 Authorisation of a Branch or Subsidiary

### AU-4.2.1

Licensees may open branches or subsidiaries in the Kingdom of Bahrain or in foreign jurisdictions after obtaining the CBB's prior written approval.

#### *Authorisation of a Branch*

### AU-4.2.2

Unless otherwise directed by the CBB, the following documents must be provided to the CBB in support of an application to open a branch:

- (a) A business plan explaining:
  - (i) The reasons for applying for a branch, including the applicant's strategy and market objectives; and
  - (ii) A minimum of three-year financial projection, with all assumptions clearly outlined, demonstrating that the branch will be able to meet all liabilities and obligations;
- (b) The location of the proposed branch, including the full address; and
- (c) Confirmation from the external auditor that the licensee's capital adequacy is sufficient to support the operation of the branch, in addition to other existing branches (if applicable), at the time of filing the request.

#### *Starting Operations of a Branch*

### AU-4.2.3

Licensees must submit to the CBB confirmation that the authorised branch has commenced operations within 6 months of the authorisation letter.



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.2 Authorisation of a Branch or Subsidiary (continued)

### *Authorisation of a Subsidiary*

#### AU-4.2.4

Licensees wishing to establish a new subsidiary undertaking must submit to the CBB the following information as part of their request:

- (a) Proposed name of subsidiary;
- (b) Country of incorporation;
- (c) Legal structure;
- (d) Proposed issued capital;
- (e) Proposed shareholding structure;
- (f) Purpose of establishing the subsidiary;
- (g) Draft incorporation documents of the subsidiary;
- (h) Board resolution approving the establishment of the subsidiary; and
- (i) Any other information or documentation requested by the CBB.

#### AU-4.2.5

Licensees wishing to acquire a new subsidiary undertaking must submit to the CBB the following information as part of their request:

- (a) Annual report, including audited financial statements of the subsidiary being acquired;
- (b) Purpose of acquiring the subsidiary;
- (c) Memorandum and Articles of Association of the subsidiary;
- (d) Board resolution approving the acquisition of the subsidiary; and
- (e) Any other information or documentation requested by the CBB.

#### AU-4.2.6

Licensees should ensure adherence with Rules contained in:

- (a) Chapter CA-1 and in particular with the gearing ratio requirements contained in Paragraph CA-1.1.4;
- (b) The minimum liquidity requirements outlined in Chapter LM-1; and
- (c) The reporting requirements for close links contained in Paragraph GR-6.1.3

when considering the impact of a subsidiary on these requirements.



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

### AU-4.3 Approved Persons

#### AU-4.3.1

Licensees must obtain CBB's prior written approval before a person is formally appointed to a controlled function. The request for CBB approval must be made by submitting to the CBB a duly completed Form 3 (Application for Approved Person status) and Curriculum Vitae after verifying that all the information contained in the Form 3, including previous experience, is accurate. Form 3 is available under Volume 5 Part B Authorisation Forms of the CBB Rulebook.

#### AU-4.3.2

When the request for approved person status forms part of a license application, the Form 3 must be marked for the attention of the Director, Licensing and Policy Directorate. When the submission to undertake a controlled function is in relation to an existing licensee, the Form 3, except if dealing with a MLRO and the Deputy MLRO, must be marked for the attention of the applicable Director, Banking Supervision Directorate responsible for the supervision of the licensee. In the case of the MLRO and Deputy MLRO, Form 3 should be marked for the attention of the Director, Compliance Directorate.

#### AU-4.3.3

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

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

#### AU-4.3.3A

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

#### AU-4.3.4

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





<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

### **AU-4.3 Approved Persons (continued)**

AU-4.3.5 [This Paragraph was deleted in July 2015.]

AU-4.3.6 [This Paragraph was moved to Paragraph AU-4.3.3A in July 2015.]

#### ***Assessment of Application***

AU-4.3.6A The CBB shall review and assess the application for approved person status to ensure that it satisfies all the conditions required in Paragraph AU-3.1.3 and the criteria outlined in Paragraph AU-3.1.5.

AU-4.3.6B For purposes of Paragraph AU-4.3.6A, licensees should give the CBB a reasonable amount of notice in order for an application to be reviewed. The CBB shall respond within 15 business days from the date of meeting all regulatory requirements, including but not limited to receiving the application complete with all the required information and documents, as well as verifying references.

AU-4.3.6C The CBB reserves the right to refuse an application for approved person status if it does not satisfy the conditions provided for in Paragraph AU-3.1.3 and does not satisfy the CBB criteria in Paragraph AU-3.1.5. A notice of such refusal is issued by registered mail to the licensee concerned, setting out the basis for the decision.

AU-4.3.7 [This Paragraph was deleted in January 2016.]

#### ***Appeal Process***

AU-4.3.7A Licensees or the nominated approved persons may, within 30 calendar days of the notification, appeal against the CBB's decision to refuse the application for approved person status. The CBB shall decide on the appeal and notify the licensee of its decision within 30 calendar days from submitting the appeal.

AU-4.3.7B Where notification of the CBB's decision to grant a person approved person status is not issued within 15 business days from the date of meeting all regulatory requirements, including but not limited to, receiving the application complete with all the required information and documents, licensees or the nominated approved persons may appeal to the Executive Director, Banking Supervision of the CBB provided that the appeal is justified with supporting documents. The CBB shall decide on the appeal and notify the licensee of its decision within 30 calendar days from the date of submitting the appeal.





MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

### AU-4.3 Approved Persons (continued)

#### *Notification Requirements and Process*

#### AU-4.3.8

Licensees must immediately notify the CBB when an approved person ceases to hold a controlled function together with an explanation as to the reasons why (see Paragraph AU-4.5.7). In such cases, their approved person status is automatically withdrawn by the CBB.

#### AU-4.3.9

Licensees must immediately notify the CBB in case of any material change to the information provided in a Form 3 submitted for an approved person.

#### AU-4.3.10

Licensees must immediately notify the CBB when they become aware of any of the events listed in Paragraph EN-8.2.3, affecting one of their approved persons.

#### AU-4.3.10A

Licensees must immediately notify the CBB should they become aware of information that could reasonably be viewed as calling into question an approved person's compliance with CBB's 'fit and proper' requirement (see AU3.1).

#### *Change in Controlled Function*

#### AU-4.3.11

Licensees must seek prior CBB approval before an approved person may move from one controlled function to another within the same licensee.

#### AU-4.3.12

In such instances, a new Form 3 (Application for Approved Person status) should be completed and submitted to the CBB. Note that a person may be considered 'fit and proper' for one controlled function, but not for another, if for instance the new role requires a different set of skills and experience. Where an approved person is moving to a controlled function in another licensee, the first licensee should notify the CBB of that person's departure (see Rule AU-4.5.7), and the new licensee should submit a request for approval under Rule AU-1.2.1.



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.4 Variations to a License

**AU-4.4.1** As per Article 48 of the CBB Law, licensees must seek prior CBB approval before undertaking new regulated financing company services.

AU-4.4.2 Failure to secure CBB approval prior to undertaking a new regulated activity may lead to enforcement action being taken against the concerned person. This is supported by Article 40 of the CBB law.

**AU-4.4.3** In addition to any other information requested by the CBB, and unless otherwise directed by the CBB, a licensee requesting CBB approval to undertake a new regulated financing company service must provide the following information:

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

**AU-4.4.4** The CBB may amend or revoke a licence in any of the following cases:

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

AU-4.4.5 The CBB's procedures for amending or revoking a license is outlined in detail in the Enforcement Module (EN).



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.5 Withdrawal of a License or Closure of a Branch

### *Licenses*

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

##### AU-4.5.1

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

##### AU-4.5.2

Licenses must satisfy CBB that their customers' interests are to be safeguarded during and after the proposed voluntary surrender or closure of the branch.

##### AU-4.5.3

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

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

##### AU-4.5.4

As provided for under Article 48 (c) of the CBB Law, the CBB may itself move to cancel a license. The CBB generally views the cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. See also Chapter EN-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.

##### AU-4.5.5

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

##### AU-4.5.6

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



MODULE	AU: Authorisation
CHAPTER	AU-4: Information Requirements and Processes

## AU-4.5 Cancellation of Authorisation (continued)

### *Cancellation of Approved Person Status*

#### AU-4.5.7

In accordance with Paragraph AU-4.3.8, licensees must promptly notify the CBB in writing, as soon as they become aware, when a person undertaking a controlled function will no longer be carrying out that function. If a controlled function falls vacant, the licensee must appoint a permanent replacement (after obtaining CBB approval), within 120 calendar days of the vacancy occurring. Pending the appointment of a permanent replacement, the licensee must make immediate interim arrangements to ensure continuity of the duties and responsibilities of the controlled function affected. These interim arrangements must be approved by the CBB.

AU-4.5.8 The explanation given for any such changes should simply identify if the planned move was prompted by any concerns over the person concerned, or is due to a routine staff change, retirement or similar reason.

AU-4.5.9 The CBB may also move to declare someone as not 'fit and proper', in response to significant compliance failures or other improper behaviour by that person: see Chapter EN-8 regarding the cancellation of 'fit and proper' approval.



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-4: Information Requirements and Processes</b>

## **AU-4.6 Publication of the Decision to Grant, Cancel or Amend a License**

AU-4.6.1 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.

**AU-4.6.2** For the purposes of Paragraph AU-4.6.1, the cost of publication must be borne by the Licensee.

AU-4.6.3 The CBB may also publish its decision on such cancellation or amendment using any other means it considers appropriate, including electronic means.



MODULE	AU: Authorisation
CHAPTER	AU-5: License Fees

## AU-5.1 License Application Fees

### AU-5.1.1

Applicants seeking a financing company license from the CBB must pay a non-refundable license application fee of BD 100 at the time of submitting their formal application to the CBB.

AU-5.1.2 There are no application fees for those seeking approved person status.



MODULE	AU: Authorisation
CHAPTER	AU-5: License Fees

## AU-5.2 Annual License Fees

**AU-5.2.1** Licensees must pay the relevant annual license fee to the CBB on 1<sup>st</sup> of December of the preceding year for which the fee is due.

**AU-5.2.2** Financing company licensees must pay a variable annual licensing fee based on 0.25% of their relevant operating expenses, subject to a floor of BD6,000 and a cap of BD24,000.

**AU-5.2.3** Relevant operating expenses are defined as the total operating expenses of the licensee concerned, as recorded in the most recent audited financial statements available, subject to the adjustments specified in Rule AU-5.2.4.

**AU-5.2.4** The adjustments to be made to relevant operating expenses are the exclusion of the following items from total operating expenses:

- (a) Training costs;
- (b) Charitable donations; and
- (c) Previous year's CBB fees paid.

AU-5.2.5 The CBB would normally rely on the audited accounts of a licensee as representing a true and fair picture of its operating expenses. However, the CBB reserves the right to enquire about the accounting treatment of expenses, and/or policies on intra-group charging, if it believes that these are being used artificially to reduce a license fee.

**AU-5.2.6** Licensees must complete and submit Form ALF (Annual License Fee) to the CBB, no later than 15<sup>th</sup> October of the preceding year for which the fees are due.

**AU-5.2.6A** All licensees are subject to direct debit for the payment of the annual license 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 5 (Specialised Licensees) CBB Rulebook on the CBB Website.

**AU-5.2.7** For new licensees, their first annual license fee is payable when their license is issued by the CBB. The amount payable is the floor amount of BD6,000.



<b>MODULE</b>	<b>AU: Authorisation</b>
<b>CHAPTER</b>	<b>AU-5: License Fees</b>

## **AU-5.2 Annual License Fees (continued)**

AU-5.2.7A For the first full year of operation for licensees, the licensee would submit a Form ALF by the 15<sup>th</sup> October of the previous year for which the fees are due, and calculate its fee as the floor amount. For future years, the licensee would submit a Form ALF by 15<sup>th</sup> October of the preceding year for which the fees are due and calculate its fee using its last audited financial statements (or alternative arrangements as agreed with CBB, should its first set of accounts cover an 18-month period).

### **AU-5.2.7B**

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

AU-5.2.7C Paragraph AU-5.2.7C does not apply to SPVs of Bahrain domiciled CIUs. In the case of Bahrain domiciled CIUs, licensees should refer to the relevant Chapter in Module ARR of Volume 7, depending on the classification of the Bahrain domiciled CIU.

AU-5.2.8 Where a license is cancelled (whether at the initiative of the firm or the CBB), no refund is paid for any months remaining in the calendar year in question, should a fee have been paid for that year.

AU-5.2.9 Licensees failing to comply with this Section may be subject to financial penalties for date sensitive requirements as outlined in Section EN-5.3A or may have their licenses withdrawn by the CBB.