



# **MICROFINANCE INSTITUTIONS AUTHORISATION MODULE**



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

## 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 The Authorisation Module sets out the Central Bank of Bahrain's ('CBB's) approach to licensing providers of regulated microfinance 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 members of the Board of 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.

### *Legal Basis*

**AU-A.1.5** This Module contains the CBB's Directive, Resolution and Regulations (as amended from time to time) regarding authorisation under Volume 5 of the CBB Rulebook. It is applicable to all microfinance institutions 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 (as amended from time to time) 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 governing the 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.



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

## AU-A.1 Purpose (continued)

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 microfinance services are required to be licensed by the CBB as a microfinance institution licensee.

### *Licensing Conditions*

AU-A.1.8 Microfinance institution licensees are subject to 8 licensing conditions, mostly specified at a high-level in Module AU, and further expanded in underlying subject Modules. 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 microfinance institution license. 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 2014. All subsequent changes to this Module are annotated with the end-calendar quarter date in which the change was made. Chapter 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-1.1.3	04/2014	Corrected cross reference.
AU-5.2.1	04/2014	Corrected due date of CBB annual license fees.

### *Superseded Requirements*

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

Document Ref.	Document Subject
Volumes 1 and 2	Module LR



<b>MODULE</b>	<b>AU:</b>	<b>Authorisation</b>
<b>CHAPTER</b>	<b>AU-B:</b>	<b>Scope of Application</b>

## AU-B.1 Scope of Application

### AU-B.1.1

The content of this Module applies to all microfinance institution 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:

- (a) Any person seeking to provide regulated microfinance services within or from the Kingdom of Bahrain must hold the appropriate CBB license (see Section AU-1.1); and
- (b) 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 microfinance services within or from the Kingdom of Bahrain, unless they have been licensed as a microfinance institution (conventional or Islamic) by the CBB or marketing any financial services unless specifically allowed to do so 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.1) apply to all those licensed by the CBB as a microfinance institution 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 Microfinance Institutions Licensees

### *General Prohibitions*

#### AU-1.1.1

No person may:

- (a) Undertake (or hold themselves out to undertake) microfinance 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-10.3).

#### AU-1.1.4

Licensees are prohibited from taking deposits.

#### AU-1.1.5

Only persons licensed to undertake regulated microfinance services can use the term 'microfinance' in their corporate or trading names, or otherwise hold themselves out to be a microfinance institution. Licensees are not allowed to transact with non-residents of the Kingdom of Bahrain, and in foreign currencies. To qualify as a microfinance institution, the person concerned must undertake (as a minimum), the activities of providing credit to eligible beneficiaries.

AU-1.1.6 Licensees are obliged to include the word 'microfinance' in their corporate or trading names and are required to make clear their regulatory status in their letter heads, customer communications, website and other communication as required under Section GR-2.2.



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

## AU-1.1 Microfinance Institutions Licensees (continued)

AU-1.1.7 For the purposes of Rule AU-1.1.5, persons will be considered in breach of this requirement if they attempt to operate as, or incorporate a microfinance institution in Bahrain with or without a name containing the word “microfinance” (or the equivalent in any language), without holding the appropriate CBB license or obtaining the prior approval of the CBB.

### *Licensing*

**AU-1.1.8** Persons wishing to be licensed to undertake regulated microfinance services within or from the Kingdom of Bahrain must apply in writing to the CBB. An application for a license must be in the form prescribed by the CBB as indicated in Chapter AU-4.

AU-1.1.9 The CBB will review the application and duly advise the applicant in writing when it has:

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

AU-1.1.10 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-1.1.11** All applicants for microfinance institution 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-1.1.12** Licensees must not carry on any other business in the Kingdom of Bahrain or elsewhere other than microfinance business and activities directly arising from or incidental to that business.

AU-1.1.13 Rule AU-1.1.12 is intended to restrict licensees from undertaking any material non-financial business activities. The Rule does not prevent a licensee undertaking commercial activities if these directly arise from their financial business: for instance, in the context of Islamic contracts, such as murabaha, ijara and musharaka, where the 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 licensees.





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

## AU-1.2 Definition of Regulated Microfinance Services

### AU-1.2.1

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

- (a) Providing conventional or Shari'a compliant microfinance to eligible beneficiaries; and
- (b) Providing consultancy and information services to its eligible beneficiaries and prospective eligible beneficiaries.

#### *Providing Conventional Microfinance*

### AU-1.2.2

Providing conventional microfinance to an eligible beneficiary is defined as the provision of credit to a person in his capacity as borrower or potential borrower. The maximum amount provided under the microcredit shall not exceed BD 5,000 in aggregate per eligible beneficiary. The repayment period must not exceed 3 years.

#### *Offering Shari'a Complaint Microfinance Contracts*

### AU-1.2.3

Offering Shari'a compliant microfinance contracts is defined as entering into, or making arrangement for an eligible beneficiary to enter into, a contract to provide finance in accordance with Shari'a principles. The maximum amount provided under the microfinance contracts shall not exceed BD 5,000 in aggregate per eligible beneficiary. The repayment period must not exceed 3 years.

### AU-1.2.4

For the purpose of this Section, eligible beneficiary(ies) means: Low income individuals and small businesses, who are not eligible to secure financing facilities through the banking system that intend to get a credit facility to engage in small economic activities (examples: small farmers, fishermen, related activities etc.).



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

## AU-1.2 Definition of Regulated Microfinance Services (continued)

### AU-1.2.5

For the purposes of Rule AU-1.2.1, carrying on a regulated microfinance service by way of business means:

- (a) Undertaking the regulated microfinance service of (a) and (b), as defined in Section AU-1.2, 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.

#### *General Exclusions*

### AU-1.2.6

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

- (a) Is carried on in the course of a business which does not ordinarily constitute the carrying on of microfinance services;
- (b) May reasonably be regarded as a necessary part of any other services provided in the course of that business;
- (c) Is not remunerated separately from the other services; and
- (d) Is carried out by a government entity in Bahrain authorised to provide such activity by Royal Decree or relevant legislation or a non-government organisation (NGO) registered with the Ministry of Social Development for that purpose.



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

### AU-1.3 Shari'a Compliant Transactions Offered by Conventional Licensees

#### *General Requirements for all Conventional Microfinance Institutions*

##### AU-1.3.1

Conventional licensees may not hold themselves out as an Islamic microfinance institution. Conventional licensees are allowed to enter into activities (a) to (c) listed in Rule AU-1.2.1 under the conditions outlined in the remainder of this section.

##### AU-1.3.2

When offering any of the Shari'a compliant activities listed in Rule AU-1.2.1, 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 Statements all quantitative and qualitative disclosures on its Shari'a compliant business as required by AAOIFI accounting and auditing standards.

#### *Additional Requirements*

##### AU-1.3.3

Conventional licensees may provide Shari'a compliant activities listed in Rule AU-1.2.1, subject to the limits under Paragraph AU-1.2.3 in Bahraini dinars to Bahraini resident individuals subject to the following conditions:

- (a) Shari'a compliant financing transactions to be undertaken through a special counter or branch as deemed necessary by the licensee;
- (b) The licensee must maintain separate books for Shari'a compliant financing activities to ensure no co-mingling of conventional and Islamic funds;
- (c) The licensee must have a Shari'a Compliant Reviewer;
- (d) The licensee must appoint a minimum of one Shari'a Scholar who has authority for all Shari'a compliant business; and
- (e) The total Islamic assets of the conventional licensee must not exceed 20% of the total assets of the licensee.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.4 Approved Persons

### *General Requirement*

**AU-1.4.1** In accordance with Article 65(a) of the CBB Law, all persons wishing to undertake a controlled function at a licensee must be approved by the CBB prior to their appointment.

**AU-1.4.2** Controlled functions are those of:

- (a) Director;
- (b) Chief executive or general manager and their deputies;
- (c) Head of function;
- (d) Compliance officer/Money Laundering Reporting Officer; and
- (e) Members of Shari'a Supervisory Committee (for Islamic microfinance institution).

**AU-1.4.3** Combination of the above controlled functions is subject to the requirements contained in Modules HC and RM.

### *Basis for Approval*

AU-1.4.4 Approval under Paragraph AU-1.4.1 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.

AU-1.4.5 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-1.4.6** Head of function means a person who, under the immediate authority of a director or the chief executive or general manager 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-1.4.7 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 the Chief Financial Officer.

AU-1.4.8 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.



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

## AU-2.1 Condition 1: Legal Status

**AU-2.1.1** The legal status of a licensee 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

In assessing the location of a licensee's Head Office, the CBB will take into account the residency of its Directors and senior management. The CBB requires the majority of key decision makers in executive management – including the Chief Executive Officer - to be resident in Bahrain.



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 does not prevent the effective supervision of the licensee by the CBB and otherwise pose no undue risks to the licensee.

AU-2.3.2 Chapter GR-4 contains the CBB's requirements and definitions regarding controllers.

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

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-1.4.2, 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 maintain a minimum level of paid-up capital of BD 5 million which has been provided by the shareholders/promoters and/or grants and donations received by the microfinance institution. A greater amount of capital may be required by the CBB on a case-by-case basis.

### *Other Sources of Funds*

**AU-2.5.3** Licensees may obtain funds through borrowings, issuance of fixed-income securities and grants and donations received on an on-going basis.

### *Liquidity*

**AU-2.5.4** Licensees must maintain sufficient liquid assets to meet their obligations as they fall due in the normal course of their business, as required under Section CA-1.2. 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 and RM.

### 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.



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

## 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 the 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 that 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 RM. Books of accounts must comply with IFRS and AAOIFI, where applicable.

### *Provision of Information*

#### AU-2.8.2

Articles 58, 111, 114 and 163 of the CBB Law require that licensees and their staff 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 RM.

### *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.

#### AU-2.8.5

Islamic licensees must appoint a minimum of one Shari'a scholar (see Paragraph HC-9.2.1).

#### AU-2.8.6

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.

#### AU-2.8.7

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

### 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 requirements for persons nominated to carry out controlled functions is contained in Section AU-1.4. The authorisation process is described in Section AU-4.3.

### AU-3.1.3

To be considered 'fit and proper', those nominated must demonstrate:

- (a) Personal integrity, honesty and good reputation;
- (b) Professional competence, experience and expertise, sufficient for the controlled function for which authorisation is being applied for, and given the scale, complexity and nature of the licensee concerned; and
- (c) Financial soundness.

### 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 Section AU-3.2. 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

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-3.1.6

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.



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

## AU-3.2 Interpretative Guidance on ‘Fit and Proper’

AU-3.2.1 In assessing a person’s fitness and propriety, the CBB will 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 fraud, misfeasance or other misconduct in connection with the formation or management of a corporation or partnership;
- (d) Whether the person has been the subject of any disciplinary proceeding by any government authority, regulatory agency or professional body or association;
- (e) The contravention of any financial services legislation or regulation;
- (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) Disqualification by a court, regulator or other competent body, as a Director or as a manager of a corporation;
- (i) 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;
- (j) The extent to which the person has been truthful and open with supervisors;
- (k) The extent to which the person has appropriate professional and other qualifications for the controlled function in question;
- (l) The extent to which the person has sufficient experience, or is otherwise able to perform the functions of the controlled function in question; and
- (m) Whether the person has ever been adjudged bankrupt, entered into any arrangement with creditors in relation to the inability to pay due debts, or failed to satisfy a judgement debt under a court order.

AU-3.2.2 With respect to AU-3.2.1(b), (c), (d) and (e), the CBB will take into account the seriousness of the matter in question.

AU-3.2.3 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:</b>	<b>Authorisation</b>
<b>CHAPTER</b>	<b>AU-4:</b>	<b>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 timelines.

#### 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 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 applying to undertake controlled functions of 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) 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 microfinance institution license;
- (f) Details of the proposed licensee's close links, if any, as defined under Chapter GR-5;



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#### 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 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-4.1.6.

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 controllers. Where the application is for an overseas licensee, the CBB may seek a letter of guarantee from the parent company.

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.





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## 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 application, and must preclude the applicant from undertaking other commercial activities, unless these arise out of its microfinance activities or are incidental to those.

### AU-4.1.8

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-4.1.9

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-4.1.10

Failure to inform the CBB of the changes specified in Paragraph AU-4.1.10 is likely to be viewed as a failure to provide full and open disclosure of information, and thus a failure to meet licensing condition in Paragraph AU-2.8.2.

### Licensing Process and Timelines

### AU-4.1.11

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

### AU-4.1.12

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.



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## AU-4.1 Licensing (continued)

### *Starting Operations*

#### AU-4.1.13

Within 6 months of the license being issued, the 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 Ministry of Industry & Commerce commercial registration certificate in Arabic and English languages;
- (i) 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 microfinance institution is licensed by the CBB;
- (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 applicant's notarised memorandum and articles of association, addressing the matters described in Paragraph AU-4.1.7; and
- (l) Other information as may be specified by the CBB.



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## AU-4.1 Licensing (continued)

### AU-4.1.13 (continued)

**AU-4.1.14** Applicants issued new licenses by the CBB must start operations within 6 months of the license being issued, as per Article 48 (c) of the CBB Law. Failure to comply with this rule may lead to enforcement action being taken against the licensee concerned, as specified in Article 128 of the CBB Law.

**AU-4.1.15** A licensee must at all times keep an approved copy of the license displayed in a visible place on the licensee's premises in the Kingdom, as per Article 47 (b) of the CBB Law.

AU-4.1.16 Applicants who are refused a license have a right of appeal under the provisions contained in Article 46 of the CBB Law, which shall not be less than thirty days from the date of the decision. The CBB will decide on the appeal made by the applicant and notify him of its decision within thirty calendar days from the date of submission of the appeal.

AU-4.1.17 Applicants may not publicise in any way the application for a licence for, or formation of, a microfinance institution before the formal decision referred to in Paragraph AU-4.1.11 is provided to the applicant or the concerned agent.



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## AU-4.2 Approved Persons

### AU-4.2.1

Licensees must obtain the CBB's prior 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) after verifying that all the information contained in the Form 3, including previous experience, is accurate.

### AU-4.2.2

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, must be marked for the attention of the applicable Banking Supervision Director. In the case of the MLRO, Form 3 should be marked for the attention of the Director, Compliance Directorate.

### AU-4.2.3

When submitting Form 3, licensees must ensure the following:

- (a) All Forms 3 must be submitted to the CBB with a covering letter signed by an authorised representative of the licensee, seeking approval for the proposed controlled function;
- (b) All Forms 3 must be submitted in original form; and
- (c) Forms 3 should be 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.

### AU-4.2.4

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.

### AU-4.2.5

Licensees should give the CBB a reasonable amount of notice in order for an application to be reviewed. The CBB aims to respond within 2 weeks of receipt of an application, although in some cases, where referral to an overseas supervisor is required, the response time is likely to be longer.



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## AU-4.2 Approved Persons (continued)

**AU-4.2.6** Licensees seeking to appoint Board Directors must seek CBB approval for all the candidates to be put forward for election/approval at a shareholder 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-4.2.7 All refusals by the CBB to grant a person approved person status have to be reviewed and approved by an Executive Director of the CBB. A notice of intent is issued to the licensee, setting out the basis for the decision. The licensee has 30 calendar days from the date of the notice in which to appeal the decision. The CBB then has 30 calendar days from the date of the representation in which to make a final determination. See also Chapter EN-8.

**AU-4.2.8** 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 Paragraphs AU-4.3.8 and AU-4.3.9). In such cases, their approved person status is automatically withdrawn by the CBB.

**AU-4.2.9** 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-4.2.10** 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.

### *Change in Controlled Function*

**AU-4.2.11** Licensees must seek prior CBB approval before an approved person may move from one controlled function to another within the same licensee.

AU-4.2.12 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-4.2.8), and the new licensee should submit a request for approval under Rule AU-1.4.1.



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## AU-4.3 Cancellation of Authorisation

### *Licenses*

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

##### AU-4.3.1

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

##### AU-4.3.2

Licenseses must satisfy the CBB that their customers' interests are to be safeguarded during and after the proposed voluntary surrender or closure of the branch. The requirements contained in Chapter GR-6 regarding cessation of business must be satisfied.

##### AU-4.3.3

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

### *Cancellation*

##### AU-4.3.4

As provided for under Article 48 of the CBB Law, 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 CBB'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-4.3.5

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

##### AU-4.3.6

The CBB generally views cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. Further guidance is contained in Module EN (Enforcement), regarding CBB's approach to enforcement and on the process for issuing a notice of cancellation and the recipient's right to appeal the notice.



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### AU-4.3 Cancellation of Authorisation (continued)

AU-4.3.7 Normally, where cancellation of a license has been confirmed by the CBB, the CBB will only effect the cancellation once a licensee has discharged all its regulatory responsibilities to customers. Until such time, the CBB will retain all its regulatory powers with regards to the licensee, and will direct the licensee such that no new regulated microfinance services may be undertaken whilst the licensee discharges its obligations to customers.

#### *Cancellation of Approved Person Status*

AU-4.3.8

In accordance with Paragraph BR-2.2.11, licensees must promptly notify the CBB in writing 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-4.3.9 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-4.3.10 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.



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

## AU-5.1 License Application Fees

### AU-5.1.1

Applicants seeking a microfinance institution 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 persons status.





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## 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** Licensees must pay an annual license fee of BD1,000.

**AU-5.2.3** All annual fees are collected by direct debit and all licensees must ensure that they submit to the CBB the completed Direct Debit Authorisation Form (available under Part B of Volume 5) by 15<sup>th</sup> October prior to the year for which the fees are due.

**AU-5.2.4** For new licensees, their first annual license fee of BD1,000 is payable when their license is issued by the CBB.

AU-5.2.5 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.