



# **MONEY CHANGERS 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 Authorisation Module sets out the Central Bank of Bahrain's ("CBB") approach to licensing providers of regulated money changer services in the Kingdom of Bahrain. It also sets out CBB requirements for approving persons undertaking key functions in those providers.

AU-A.1.2 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.1.3** 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.1.4** This Module contains the CBB's Directive, Regulations and Resolutions (as amended from time to time) regarding authorisation under Volume 5 (Specialised Licensees) 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'). Requirements regarding regulated money changer services as per Article 39 (see Paragraph AU-1.1.8), licensing conditions as per Article 44 (see Chapter AU-2) and licensing fees as per Article 180 (see Chapter AU-5) are also included in Regulations and Resolutions and included in this Module. The Module also contains requirements governing the conditions of granting a license for the provision of regulated services as prescribed under Resolution No.(43) of 2011 and issued under the powers available to the CBB under Article 44(c). The Module contains requirements under Resolution No.(16) for the year 2012 including the prohibition of marketing financial services pursuant to Article 42 of the CBB Law. Requirements regarding Money Changer Licensees are also included in the Regulation Organising Money Changing Business, issued in 1994 and included in this Module.



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

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

AU-A.1.5 Approved Persons are individuals holding certain specified positions at CBB licensees; they must be approved by the CBB prior to taking on those positions and must demonstrate that they are fit and proper. The list of positions subject to the CBB's Approved Persons regime vary according to the CBB license Category, but generally cover directors and senior management, as well as certain other positions. Approved Persons requirements are specified in the relevant Rulebook Volume for the license Category in question.

AU-A.1.6 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



<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 October 2010. 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-A.1.4	01/2011	Clarified legal basis.
AU-4.1.4	01/2011	Removed the requirement for a letter of comfort to be provided with an application for license.
AU-4.1.15	01/2011	Corrected cross reference.
AU-4.1.4(a)	04/2011	Added cross reference.
AU-4.2	04/2011	Clarified Rules for authorisation of a branch and added Rules for authorisation of a subsidiary.
AU-4.3.7A	07/2011	Added a Rule dealing with notification to CBB when an approved person ceases to hold a controlled function.
AU-4.4.6	07/2011	Cross reference added to Rule.
AU-A.1.4	04/2012	Legal basis updated to reflect all Articles of the CBB Law covered by this Module as well as applicable Resolutions.
AU-4.4	04/2012	Clarified language on cancellation of a license to be in line with other Volumes of the CBB Rulebook.
AU-1.1.8A and AU-1.1.8B	10/2012	Rule and guidance added to address the activity of wholesale export and import of various currency bank notes in physical form.
AU-2.1.1	10/2012	Amended legal status.
AU-A.1.4	01/2013	Updated legal basis.
AU-1.1	01/2013	References added to requirements under Resolution No.(16) for the year 2012.
AU-1.2.3	01/2013	Clarified approval requirements for controlled functions for Bahrain operations.
AU-4.4.4A	01/2013	Corrected cross reference to CBB Law.
<b>AU-5.2</b>	<b>07/2013</b>	<b>Amended due date and collection process for annual licensee fee.</b>



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

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

### *Superseded Requirements*

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

Circular / other reference	Subject
Standard Conditions and Licensing Criteria: Money Changers	Scope of license and licensing conditions.
Circular BC/309/1994	Management Personnel
Circular BC/120/1995	Money Changers Permitted Business
Circular BC/11/98	Appointment and suitability of Directors and senior managers ('fit and proper').
Circular EDFIS/C/05/2007	CBB's New License Fees System



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

## AU-B.1 Scope of Application

### AU-B.1.1

The content of this Module applies to all Money Changer 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:

- (i) Any person seeking to provide a regulated money changer service within or from the Kingdom of Bahrain must hold the appropriate CBB license (see AU-1.1). Money Changer Licensees are thereafter referred to in this Module as licensees; and
- (ii) Natural persons wishing to perform a controlled function in a licensee also require prior CBB approval, as an approved person (see AU-1.2).



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

## AU-B.2 Authorised Persons

AU-B.2.1 Various requirements in Chapters AU-2 to AU-4 inclusive also apply to persons once they have been authorised by the CBB (whether as licensees or approved persons).

AU-B.2.2 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

### AU-1.1.1

No person may:

- (a) Undertake (or hold themselves out to undertake) regulated money changer 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

For the purposes of Rule AU-1.1.1, please refer to Rule AU-1.1.8 for the definition of 'regulated money changer services' and Rule AU-1.1.9 for 'by way of business'. Such activities will be deemed to be undertaken within or from the Kingdom of Bahrain if, for example, the person concerned:

- (a) Is incorporated in the Kingdom of Bahrain; or
- (b) Uses an address situated in the Kingdom of Bahrain for its correspondence.

### AU-1.1.2A

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-1.1.2B

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-1.1.3

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

### AU-1.1.4

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

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



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

## AU-1.1 Licensing (continued)

AU-1.1.5 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-1.1.6 Detailed rules and guidance regarding information requirements and processes for licenses can be found in Section AU-4.1. As specified in Paragraph AU-4.1.12, 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.

### AU-1.1.7

All applicants seeking a Money Changers license must satisfy the CBB that they meet, by the date of authorisation, the minimum criteria for licensing, as contained in Chapter AU-2. Once licensed, licensees must maintain these criteria on an on-going basis.

#### *Money Changer License Permitted Activities*

### AU-1.1.8

For the purposes of Volume 5 (Specialised Licensees), regulated money changer services mean all transactions including:

- (a) The sale, purchase and exchange of foreign currencies;
- (b) Currency transfer to/from Bahrain;
- (c) Purchase and sale of travellers' cheques;
- (d) The dealing in precious metals within the allowed limits; or
- (e) Any other financial business related to Money Changers activities and approved by the CBB.

### AU-1.1.8A

For purposes of Subparagraph AU-1.1.8(a), the sale, purchase and exchange of foreign currencies may include the wholesale export and import of various currency bank notes in physical form, for the purpose of distribution/collection to/from the local market or for transmission to a foreign jurisdiction. Only licensees whose license specifically allows for such activity to be undertaken are permitted to engage in this activity.



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

## AU-1.1 Licensing (continued)

AU-1.1.8B In assessing a request from a licensee to add the activity of export/import of bank notes to its permitted activities, the CBB will consider among other factors, the following:

- (a) A satisfactory track record of not less than 5 years operating as a licensed regulated entity in the financial sector;
- (b) The licensee's financial soundness, an acceptable level of capitalisation and financial resources and its ability to meet its obligations in a timely and satisfactory manner;
- (c) The legal status and regulatory track record of the licensee including previous disciplinary measures taken against the licensee by the CBB or any other jurisdiction in which its group operates;
- (d) The maintenance of an adequate insurance coverage to cater for any risk that may arise while importing/exporting the consignment;
- (e) The application of prudent security measures when transporting the banknotes within the Kingdom of Bahrain, as required by Paragraphs GR-7.1.1 and GR-9.1.5A;
- (f) The existence of prudent documented and approved internal procedures and controls within the licensee to govern the entire import/export activity starting from the origination of the consignment to its final destination. Such procedures must observe the requirements of any other Law or relevant competent authority in this regard, whether in the Kingdom of Bahrain or the jurisdiction to/from which the banknotes are being exported/imported;
- (g) The existence of the necessary AML/CFT systems and controls in place as required by Module FC;
- (h) The quality of management and corporate governance framework and oversight over the activities of the licensee; and
- (i) The maintenance of proper books and records as required by Chapter GR-1.

### AU-1.1.9

For the purposes of Volume 5 (Specialised Licensees), carrying on a regulated money changer services by way of business means:

- (a) Undertaking one or more of the activities specified in Paragraph AU-1.1.8 for commercial gain;
- (b) Holding oneself out as willing and able to engage in that activity; or
- (c) Regularly soliciting other persons to engage in transactions constituting that activity.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.1 Licensing (continued)

### AU-1.1.10

Licensees are prohibited from conducting any other financial business other than that set out in Rule AU-1.1.8 above, and permitted by the license issued to them by the CBB.

### AU-1.1.11

A person does not carry on an activity constituting regulated money changer services if it is an organisation, commercial company or travel and tourism agency accepting foreign currencies and travellers' cheques in consideration for their sales. In addition, hotels do not undertake regulated money changer services when accepting foreign currencies and travellers' cheques in consideration for their services and/or as a service to their guests.

#### *Suitability*

### AU-1.1.12

Those seeking authorisation must satisfy the CBB as to their suitability to carry out the regulated money changer services for which they are seeking authorisation.

### AU-1.1.13

In assessing applications for a license, the CBB will assess whether an applicant satisfies the licensing conditions (as specified in Chapter AU-2) with respect to all the regulated services that the applicant proposes to undertake.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

## AU-1.2 Approved Persons

### *General Requirements*

**AU-1.2.1** 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, subject to the variations contained in Paragraph AU-1.2.3.

**AU-1.2.2** Controlled functions are those of:

- (a) Director;
- (b) Chief Executive or General Manager;
- (c) Head of function;
- (d) Compliance Officer; and
- (e) Money Laundering Reporting Officer.

**AU-1.2.3** Prior approval is required for all of the above controlled functions. Combination of the above controlled functions is subject to the requirements contained in Modules HC and RM. Controlled functions (b) to (e) are in relation to Bahrain operations.

### *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 at 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-1.2.5. 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-1.2.5.



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 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.



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.1 Condition 1: Legal Status

### AU-2.1.1

The legal status of a licensee must be:

- (i) A Bahraini joint stock company (B.S.C.); or
- (ii) A Bahraini company with limited liability (W.L.L.) and licensed to conduct money changer business prior to 1<sup>st</sup> October 2012.

AU-2.1.2 For those licensees that do not meet the requirements of Rule AU-2.1.1, they should discuss their legal status with the CBB.



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

## 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 and must conduct their business from their Head Office and approved branches only.

### 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 - 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.



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

## AU-2.4 Condition 4: Board and Employees

**AU-2.4.1** As per Article 65(a) of the CBB law, those nominated to carry out controlled functions must satisfy CBB's approved person's requirements.

AU-2.4.2 The definition of controlled functions is contained in Paragraph AU-1.2, whilst Chapter AU-3 sets out CBB's approved persons requirements. Applications for approved person status must be submitted using the prescribed approved persons form.

**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.

AU-2.4.4 The CBB's training and competency requirements are contained in Module TC (Training and Competency).



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.5 Condition 5: Financial Resources

### AU-2.5.1

Licensees must maintain a level of financial resources, as agreed with the CBB, adequate for the level of business proposed. The level of financial resources held must exceed at all times the minimum requirements contained in Module CA (Capital Adequacy), as specified for the license held.



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 (High-level Controls) and RM (Risk Management), as specified for the license held.

### AU-2.6.2

Licensees must maintain adequate segregation of responsibilities in their staffing arrangements, to protect against the misuse of systems or errors. Such segregation should ensure that no single individual has control over all stages of a transaction.

### AU-2.6.3

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 (Financial Crime), as specified for the license held.

### AU-2.6.4

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



<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** As per Article 61 of the CBB Law, licensees must appoint external auditors, subject to prior CBB approval. The minimum requirements regarding auditors contained in Module AA (Auditors and Accounting Standards) must be met.

**AU-2.7.2** Applicants must submit details of their proposed external auditor to the CBB as part of their license application.



MODULE	AU: Authorisation
CHAPTER	AU-2: Licensing Conditions

## AU-2.8 Condition 8: Other Requirements

### *Books and Records*

#### AU-2.8.1

Licensees must maintain comprehensive books of accounts and other records, which must be available for inspection within the Kingdom of Bahrain by the CBB, or persons appointed by the CBB, at any time. Licensees must comply with the minimum record-keeping requirements contained in Module GR. Books of accounts must comply with IFRS standards.

### *Provision of Information*

#### AU-2.8.2

Licensees 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.

### *General Conduct*

#### AU-2.8.3

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

### *License Fees*

#### AU-2.8.4

Licensees must comply with any license fee requirements applied by the CBB.

AU-2.8.5 License fee requirements are contained in Chapter AU-5.

### *Additional Conditions*

#### AU-2.8.6

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

AU-2.8.7 When granting a license, the CBB specifies the regulated services that the licensee may undertake. Licensees must respect the scope of their license.

AU-2.8.8 In addition, the CBB may vary existing requirements or impose additional restrictions or requirements, beyond those already specified in Volume 5 (Specialised Licensees), to address specific risks.



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

## AU-3.1 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-1.2. 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 length of time since any such event occurred, as well as 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 must be accompanied by the documents listed in Rule 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 in support of a Form 1:

- (a) A duly completed Form 2 (Application for Authorisation of Controller) for each controller of the proposed licensee (refer to Chapter GR-5 for detailed requirements on controllers);
- (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 Bahraini company, a copy of the applicant's commercial registration certificate;
- (e) A certified copy of a Board resolution of the applicant, confirming its decision to seek a CBB money changer license;



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## AU-4.1 Licensing (continued)

### *Application Form and Documents (continued)*

- (f) In the case of applicants that are part of a group, copies of the audited financial statements of the applicant's group, for the three years immediately prior to the date of application;
- (g) In the case of applicants not falling under (f) above, copies of the audited financial statements of the applicant's major shareholder (where a legal person), for the three years immediately prior to the date of application;
- (h) In the case of applicants seeking to raise part of their capital through a private placement, a draft of the relevant private placement memorandum, together with a formal, independent legal opinion that the memorandum comply with all applicable capital markets laws and regulations; and
- (i) A copy of the applicant's memorandum and articles of association (in draft form for applicants creating a new company) addressing the matters described in AU-4.1.8.

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 must explain:

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



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## AU-4.1 Licensing (continued)

### *Application Form and Documents (continued)*

AU-4.1.7 In the case of applicants seeking to raise capital (refer to AU-4.1.4(h)), the CBB's review is aimed at checking that the proposed private placement complies with applicable capital markets laws and regulations, and that the information contained in the private placement memorandum ('PPM') is consistent with the information provided in the license application. The CBB's review does not in any way constitute an approval or endorsement as to any claims made in the PPM regarding the future value of the company concerned. Note also that 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 will normally expect core shareholders to account for at least 40% of the applicant's initial proposed total capital.

**AU-4.1.8** The applicant's memorandum and articles of association must explicitly provide for it to undertake the activities proposed in the license application, and must preclude the applicant from undertaking other regulated services, or commercial activities.

**AU-4.1.9** All documentation provided to the CBB as part of an application for a license must be in either the Arabic or English languages. Any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof.

**AU-4.1.10** 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-4.1.11 Failure to inform the CBB of the changes specified in Rule 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 Rule AU-2.8.2.

**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)

### *Licensing Process and Timelines*

- AU-4.1.13 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-4.1.14 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-4.1.15 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-4.1.16 On the basis of the information specified in Paragraph AU-4.1.15, 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-4.1.17 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-4.1.18 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).



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## AU-4.1 Licensing (continued)

AU-4.1.19 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-4.1.20** 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-4.1.21 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-4.1.21** To be granted a license, an applicant must 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-4.1.22** 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-4.1.23** Where the CBB proposes to refuse an application for a license, it must give the applicant 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.



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## AU-4.1 Licensing (continued)

### *Starting Operations*

#### AU-4.1.24

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

- (a) The registered office address and details of premises to be used to carry out the business of the proposed licensee;
- (b) The address in the Kingdom of Bahrain where full business records will be kept;
- (c) The licensee's contact details including telephone and fax number, e-mail address and website;
- (d) A copy of its business continuity plan;
- (e) A description of the IT system that will be used, including details of how IT systems and other records will be backed up;
- (f) A copy of the auditor's acceptance to act as auditor for the applicant;
- (g) A copy of an auditor's opinion certifying that the licensee's capital – as specified in the business plan submitted under Rule AU-4.1.4 – has been paid in;
- (h) A copy of the licensee's professional indemnity insurance policy (see Section GR-7.1);
- (i) A copy of the applicant's notarized memorandum and articles of association, addressing the matters described in Paragraph AU-4.1.8;
- (j) A copy of the Ministry of Industry and Commerce commercial registration certificate in Arabic and in English;
- (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 money changer is licensed by the CBB; and
- (l) Any other information as may be specified by the CBB.

#### AU-4.1.25

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-4.1.26 The procedures for cancelling licenses are contained in Section AU-4.4.



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 in the Kingdom of Bahrain after obtaining the CBB's prior written approval. Licensees are prohibited from opening branches in foreign jurisdictions but may open subsidiaries in such jurisdictions with the CBB prior 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:
  - 1) The reasons for applying for a branch, including the applicant's strategy and market objectives; and
  - 2) 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;
- (c) A confirmation that the branch will comply with the minimum security measures for money changer licensees as specified in Section GR-9.1;
- (d) 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; and
- (e) Confirmation from the external auditor that additional capital requirement of BD30,000 (refer to Section CA-1.4), has been deposited in the licensee's bank account.

#### *Starting Operations of a Branch*

### AU-4.2.3

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

### AU-4.2.4

An application for authorisation of a new branch will not be considered by the CBB unless the written confirmation that the preceding branch is operational, as required in Rule AU-4.2.3 above, has been submitted.





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

### *Authorisation of a Subsidiary*

#### AU-4.2.5

Licensees wishing to establish or acquire 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 or acquiring the subsidiary;
- (g) Draft incorporation documents of the subsidiary;
- (h) Board resolution approving the establishment or acquisition of the subsidiary; and
- (i) Any other information or documentation requested by the CBB.

#### AU-4.2.6

Licensees should ensure adherence with Rules contained in Chapter CA-1 and in particular with the leverage and liquidity requirements contained in Section CA-1.5 when considering the impact of a subsidiary on capital requirements.





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### AU-4.3 Approved Persons

**AU-4.3.1** Licensees must obtain CBB 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-4.3.2** 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, must be marked for the attention of the Director, Financial Institutions Supervision Directorate. In the case of the MLRO, Form 3 should be marked for the attention of the Director, Compliance Directorate.

**AU-4.3.3** When submitting Form 3, licensees must ensure that it must be submitted:

- (a) To the CBB with a covering letter signed by an authorised representative of the licensee, seeking approval for the proposed controlled function;
- (b) In original form; and
- (c) 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-4.3.4 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.

AU-4.3.5 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-4.3 Approved Persons (continued)

AU-4.3.6 Licensees seeking to appoint Board Directors should seek CBB approval for all the candidates to be put forward for election 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.

AU-4.3.7 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-4.3.7A** 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-4.4.6). In such cases, their approved person status is automatically withdrawn by the CBB.

**AU-4.3.8** 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-4.3.9** 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-4.3.10** Licensees must seek prior CBB approval before an approved person may move from one controlled function to another within the same licensee.

AU-4.3.11 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 at another licensee, the first licensee should notify the CBB of that person's departure (see Rule AU-4.4.6), and the new licensee should submit a request for approval under Rule AU-1.2.1.



MODULE	AU: Authorisation
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## AU-4.4 Cancellation of Authorisation

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

#### AU-4.4.1

In accordance with Article 50 of the CBB Law, licensees wishing to cancel their license or cease activities for a branch, must obtain the CBB's written approval, before ceasing their activities. All such requests must be made in writing to the Director, Financial Institutions Supervision, setting out in full the reasons for the request and how the business is to be wound up.

#### AU-4.4.2

Licensees must satisfy the CBB that their customers' interests are to be safeguarded during and after the proposed cancellation. The requirements contained in Chapter GR-6 regarding cessation of business must be satisfied.

#### AU-4.4.3

Failure to comply with Rule AU-4.4.1 may constitute a breach of Article 50(a) of the CBB Law. The CBB will only approve such a request where it has no outstanding regulatory concerns and any relevant customer interests would not be prejudiced. A voluntary surrender of a license will not be accepted where it is aimed at pre-empting supervisory actions by the CBB. A voluntary surrender will only be allowed to 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-4.4.4

As provided for under Article 48 (c) of the CBB Law, the CBB may itself move to cancel a license, for instance if a licensee fails to satisfy any of its existing license conditions or protecting the legitimate interests of customers or creditors of the licensee require a cancellation. The CBB generally views the cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. See also Chapter EN-7, regarding the cancellation or amendment of licenses, including the procedures used in such instances and the licensee's right to appeal the formal notice of cancellation issued by the CBB.

#### AU-4.4.4A

Cancellation of a license requires the CBB to issue a formal notice of cancellation to the licensee 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-4.4.4B

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



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#### AU-4.4 Cancellation of Authorisation (continued)

**AU-4.4.5** Licensees wishing to cancel an authorisation for a branch must obtain the CBB's written approval, before ceasing the activities of the branch.

##### *Cancellation of Approved Person Status*

**AU-4.4.6** In accordance with Paragraphs AU-4.3.7A and 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-4.4.7 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-4.4.8 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.



MODULE	AU: Authorisation
CHAPTER	AU-5: License Fees

## AU-5.1 License Application Fees

**AU-5.1.1** Applicants seeking a Money Changer 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.



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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> December of the preceding year for which the fee is due.

AU-5.2.2 The relevant fees are specified in Rule AU-5.2.3 below. The fees due on 1<sup>st</sup> December are those due for the following calendar year, but are calculated on the basis of the firm's latest audited financial statements for the previous calendar year: i.e. the fee payable on 1<sup>st</sup> December 2013 for the 2014 year (for example), is calculated using the audited financial statements for 2012, assuming a 31<sup>st</sup> December year end. Where a licensee does not operate its accounts on a calendar-year basis, then the most recent audited financial statements available are used instead.

**AU-5.2.3** The variable annual license fee payable by licensees is 0.25% of their relevant operating expenses, subject to a minimum ('floor') of BD 300 and a maximum ('cap') of BD 6,000.

**AU-5.2.4** 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-5.2.5.

**AU-5.2.5** 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;
- (c) CBB fees paid; and
- (d) Non-executive Directors' remuneration.

AU-5.2.6 For the avoidance of doubt, operating expenses for the purposes of this Section, do not include items such as depreciation, provisions, interest expense, and dividends.

AU-5.2.7 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-5.2.8** 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.



MODULE	AU: Authorisation
CHAPTER	AU-5: License Fees

## AU-5.2 Annual License Fees (continued)

**AU-5.2.8A** All licensees are subject to direct debit for the payment of the annual fee and must complete and submit to the CBB a Direct Debit Authorisation Form by 15<sup>th</sup> September available under Part B of Volume 5 (Specialised Licensees) CBB Rulebook on the CBB Website.

**AU-5.2.9** For new licensees, the first annual license fee is payable when the license is issued by the CBB. The amount payable is the floor amount of BD 300.

**AU-5.2.9A** For the first full year of operation for licensees, the licensee would 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-5.2.10 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.

**AU-5.2.11** 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.