



USER'S GUIDE MODULE



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MODULE	UG:	User's Guide
CHAPTER	UG-A:	Introduction

UG-A.1 Purpose

Executive Summary

- UG-A.1.1 The Central Bank of Bahrain ("the CBB"), in its capacity as the regulatory and supervisory authority for all financial institutions in Bahrain, issues regulatory instruments that licensees and other specified persons are legally obliged to comply with. These regulatory instruments are contained in the CBB Rulebook. Much of the Rulebook's substantive content was previously issued by the Bahrain Monetary Agency ("the BMA"), and was carried forward when the CBB replaced the BMA in September 2006.
- UG-A.1.2 The Rulebook is divided into 7 Volumes, covering different areas of financial services activity. These Volumes are being progressively issued. Volumes 1 and 2, covering conventional bank licensees and Islamic bank licensees respectively, were issued in July 2004 and January 2005; Volume 3, covering insurance licensees, was issued in April 2005; Volume 4, covering investment firm licensees was issued in April 2006. This Volume, Volume 5 specialised licensees is issued in 2010. Volume 6 (capital markets) is gradually being issued. Volume 7 on collective investment undertakings (CIUs) was issued in May 2012.
- UG-A.1.3 This User's Guide provides guidance on (i) the status and application of the Rulebook, with specific reference to Volume 5 (Specialised licensees); (ii) the structure and design of the Rulebook; and (iii) its maintenance and version control.
- UG-A.1.4 Volume 5 (Specialised Licensees) covers specialised licensees, i.e. those CBB licensees that undertake regulated specialised activities that do not fall under any other Volume (1-4, 6, 7) of the CBB Rulebook. It contains prudential requirements (such as rules on minimum capital and risk management); and conduct of business requirements (such as rules on the giving of advice and the treatment of customer money). Collectively, these requirements are aimed at ensuring the safety and soundness of CBB-licensed companies, and providing an appropriate level of protection to the customers of such companies.



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CHAPTER	UG-A:	Introduction

UG-A.1 Purpose (continued)

Legal Basis

UG-A.1.6

This Module contains the CBB's Directive (as amended from time to time) regarding the User's Guide for Volume 5 of the CBB Rulebook, and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). The Directive in this Module is applicable to all specialised licensees (including their approved persons).

UG-A.1.7

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



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CHAPTER	UG-A: Introduction

UG-A.2 Module History

Evolution of Module

UG-A.2.1 This Module was first issued in October 2010. Any material changes that are subsequently made to this Module are annotated with the calendar quarter date in which the change is made; Chapter UG-3 provides further details on Rulebook maintenance and version control.

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

Module Ref.	Change Date	Description of Changes
UG-A.1.6	01/2011	Clarified legal basis.
UG-2.1.2	01/2011	Amended defined term.
UG-A.1.2, UG-A.1.4, UG-1.2.1, UG-1.2.2, UG-1.2.7, UG-2.1.1, UG-2.1.2, UG-2.1.5 and UG-2.2.2	10/2012	Various minor corrections to reflect structure of Rulebook, including issuance of Volume 7.



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CHAPTER	UG-1:	Rulebook Status and Application

UG-1.1 Legal Basis

General

UG-1.1.1 Volume 5 (Specialised Licensees) of the CBB Rulebook is issued by the CBB pursuant to the Central Bank of Bahrain and Financial Institutions Law 2006 ("the CBB Law"). The CBB Law provides for two formal rulemaking instruments: Regulations (made pursuant to Article 37) and Directives (made pursuant to Article 38). Other articles in the CBB Law also prescribe various specific requirements (for example, requirements relating to licensing (Articles 44 to 49), or the notification and approval of controllers of licensees (Articles 52 to 56)).

UG-1.1.2 The Purpose Section of each Module specifies in all cases the rulemaking instrument(s) used to issue the content of the Module in question, and the legal basis underpinning the Module's requirements.

CBB's Rulemaking Instruments

UG-1.1.4 Regulations are made pursuant to Article 37 of the CBB Law. These instruments have general application throughout the Kingdom and bind all persons ordinarily affected by Bahraini legislative measures (i.e. residents and/or Bahraini persons wherever situated).

UG-1.1.5 Because Regulations have wide general application, they are subject to two important safeguards: (i) the CBB is under a duty to consult with interested parties and to review and consider their comments; and (ii) the finalised Regulations only become effective after they are published in the Official Gazette.

UG-1.1.6 Directives are made pursuant to Article 38 of the CBB Law. These instruments do not have general application in the Kingdom, but are rather addressed to specific licensees (or categories of licensees) or approved persons. Directives are binding on those to whom they are addressed.

UG-1.1.7 Unlike Regulations, there is no duty on the CBB to either consult with addressees or publicise a Directive by publishing it in the Official Gazette (save that an addressee must obviously have actual or constructive notice of a Directive). However, as a matter of general policy, the CBB also consults on Rulebook content issued by way of a Directive.



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UG-1.1 Legal Basis (continued)

CBB's Rulemaking Instruments (continued)

- UG-1.1.8 All of the content of the CBB Rulebook has the legal status of at least a Directive, issued pursuant to Article 38 of the CBB Law. Certain of the requirements contained in the CBB Rulebook may also have the status of a Regulation, in which case they are also separately issued pursuant to Article 37 of the CBB Law and published in the Official Gazette. Where this is the case, then the Rulebook cross-refers to the Regulation in question and specifies the requirements concerned.
- UG-1.1.9 In keeping with the nature of these regulatory instruments, Regulations are used to supplement the CBB Rulebook, either where explicitly required under the CBB Law, or where a particular requirement needs to have general applicability, in addition to being applied to licensees or approved persons.



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CHAPTER	UG-1: Rulebook Status and Application

UG-1.2 Status of Provisions

UG-1.2.1 The contents of the CBB Rulebook are categorised either as Rules or as Guidance. Rules have a binding effect. **If a licensee breaches a Rule to which it is subject, it is liable to enforcement action by the CBB and, in certain cases, criminal proceedings by the Office of the Public Prosecutor.**

UG-1.2.2 **Guidance is not binding; rather, it is material that helps inform a particular Rule or set of Rules, or provides other general information.** Where relevant, compliance with Guidance will generally lead the CBB to assess that the rule(s) to which the Guidance relates has been complied with. Conversely, failure to comply with Guidance will generally be viewed by the CBB as tending to suggest breach of a Rule.

UG-1.2.3 The status of each Paragraph within the Rulebook is identified by its text format, as follows:

- Rules are in bold, font size 12. The Paragraph reference number is also highlighted in a coloured box.
- Guidance is in normal type, font size 11.

UG-1.2.4 Where there are differences of interpretation over the meaning of a Rule or Guidance, the CBB reserves the right to apply its own interpretation.

UG-1.2.5 Rule UG-1.2.4 does not prejudice the rights of an authorised person to make a judicial appeal, should it believe that the CBB is acting unreasonably or beyond its legal powers.

UG-1.2.6 All Rulebook content has the formal status of at least a Directive. Some Rulebook content may also have the status of Regulations. Rulebook content that is categorised as a Rule is therefore legally mandatory and must be complied with by those to whom the content is addressed.

UG-1.2.7 **[This Paragraph was deleted in October 2012].**

UG-1.2.8 The CBB's enforcement powers and processes are set out in Module EN.



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CHAPTER	UG-1: Rulebook Status and Application

UG-1.3 Application

UG-1.3.1 Volume 5 of the CBB Rulebook for the most part applies only to specialised licensees, and to individuals undertaking key functions in those licensees (so-called 'approved persons'). Most of the content of Volume 5 only has the formal status of a Directive.

UG-1.3.2 A few Rules and Guidance have general applicability (and thus also have the formal status of a Regulation): for instance, no one may carry on specialised activities within or from Bahrain without the appropriate license, and controllers of specialised licensees are also subject to various requirements.

UG-1.3.3 Each Module in Volume 5 (except those listed under the 'Introduction' and 'Sector Guides' headings) contains a Scope of Application Chapter, setting out which Rules and Guidance apply to which particular type of specialised licensee or person, for the Module concerned. In addition, each Rule (or Section containing a series of Rules) is drafted such that its application is clearly highlighted for the user. Finally, each Module, in its Purpose Section, specifies in all cases the rulemaking instrument(s) used to issue the content of the Module in question, and the legal basis underpinning the Module's requirements.



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CHAPTER	UG-1:	Rulebook Status and Application

UG-1.4 Effective Date

UG-1.4.1

Volume 5 (Specialised Licensees) of the CBB Rulebook was first issued in October 2010. Its contents have immediate effect, subject to any specific transition arrangements that may be specified.



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CHAPTER	UG-2:	Rulebook Structure and Format

UG-2.1 Rulebook Structure

Rulebook Volumes

UG-2.1.1 The Rulebook is divided into 7 Volumes, covering different areas of financial services activity, as follows:

Volume 1	Conventional Banks
Volume 2	Islamic Banks
Volume 3	Insurance
Volume 4	Investment Business
Volume 5	Specialised Licensees
Volume 6	Capital Markets
Volume 7	Collective Investment Undertakings

UG-2.1.2 Volume 5 (Specialised Licensees), covers money changers; financing companies; representative offices; administrators; trust service providers; micro-finance institutions and ancillary services providers.

Rulebook Contents (Overview)

UG-2.1.3 The material in Volume 5 is divided into common modules and specific modules. It is further organised by the type of the specialised licensee concerned, as outlined in the chart in UG-2.1.5 below. The contents of the common modules apply to all specialised licensees, while the content of the specific modules apply to one specific type of licensee (e.g. Capital Adequacy Module for Money Changers).

UG-2.1.4 Each Volume has its own appendix Volume containing relevant reporting and authorisation forms; a glossary; and any supplementary information. In all cases, the main Volume is called 'Part A' and the appendix Volume is called 'Part B'.



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CHAPTER	UG-2: Rulebook Structure and Format

UG-2.1 Rulebook Structure (continued)

Rulebook Contents (Overview)

UG-2.1.5:

Volume 5 Structure						
Common Modules (Applicable to all Specialised Licensees)						
User's Guide Module (UG) Financial Crime Module (FC) Auditors and Accounting Standards Module (AA) Enforcement Module (EN) Principles of Business Module (PB)						
Specific Modules (By Type of Licensee)						
Type 1: Money Changers Licensees	Type 2: Representative Office Licensees	Type 3: Financing Companies	Type 4: Fund Administrators	Type 5: Trust Service Providers	Type 6: Micro-Financial Institutions	Type 7: Ancillary Services Providers
Authorisation Module (AU)	Authorisation Module (AU)	Authorisation Module (AU)	Authorisation Module (AU)	To be developed		
Business Conduct Module (BC)		Business Conduct Module (BC)				
CBB Reporting Requirements Module (BR)		CBB Reporting Requirements Module (BR)	CBB Reporting Requirements Module (BR)			
Capital Adequacy Module (CA)		Capital Adequacy Module (CA)	Capital Adequacy Module (CA)			
General Requirements Module (GR)	General Requirements Module (GR)	General Requirements Module (GR)	General Requirements Module (GR)			
High-level Control Module (HC)		High-level Control Module (HC)	High-level Control Module (HC)			
Risk Management Module (RM)		Risk Management Module (RM)				
Training and Competency Module (TC)		Training and Competency Module				
		Liquidity Risk Management Module (LM)				



MODULE	UG: User's Guide
CHAPTER	UG-2: Rulebook Structure and Format

UG-2.2 Volume Structure

Modules

- UG-2.2.1 Modules in Volume 5 are divided into Common and Specific Modules based on the nature of each specialised licensee. The contents of Common Modules apply to all specialised licensees, while the contents of Specific Modules apply to one specific type of licensee (e.g. Money Changers).
- UG-2.2.2 Each Module in Volume 5 is referenced using a two-**or three**-letter code, which is usually a contraction or abbreviation of its title. For each Specific Module, in addition to the title, the type of licensee is mentioned. These codes are used for cross-referencing within the text.

Chapters

- UG-2.2.3 Each Module consists of Chapters, categorised into two types:
- Standard introductory Chapters (referenced with a letter: e.g. UG-A); and
 - Chapters containing the substantive content of the Module (referenced with a number: e.g. CA-1, CA-2, etc.)
- UG-2.2.4 The introductory Chapters summarise the purpose of the Module, its history (in terms of changes made to its contents) and, where relevant, lists previously issued circulars and regulations that were replaced by the Rulebook Module. A separate introductory Chapter also prescribes the scope of application of the Module's requirements.

Sections and Paragraphs

- UG-2.2.5 Chapters are further sub-divided into Sections: these extend the Chapter numbering (e.g. FC-1.1, FC-1.2, FC-1.3 etc). In turn, Sections are sub-divided into Paragraphs; these extend the Chapter and Section numbering (e.g. FC-1.1.1, FC-1.1.2, FC-1.1.3 etc). Where appropriate, sub-Section headings may be used, to guide the reader through a Section; sub-Section headings are italicised and unnumbered, and act purely as an indicator (without limitation) as to the contents of the Paragraphs that follow.

Table of Contents

- UG-2.2.6 Each Volume's contents page lists all the Modules contained within it (Part A) and the information contained in the relevant appendix Volume (Part B).
- UG-2.2.7 The contents page of each Module lists the Chapters and Sections it contains, and the latest version date of each Section in issue.



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CHAPTER	UG-2:	Rulebook Structure and Format

UG-2.3 Format and Page Layout

Headers

UG-2.3.1 The top of each page in the Rulebook identifies the Volume, Common or Specific Module and Chapter in question. Each Module is a separate document. New Chapters start on a fresh page.

Footers

UG-2.3.2 The bottom of each page in the Rulebook (on the left hand side) identifies the Module in question, its Section and page number. Page numbering starts afresh for each Section: the total number of pages in each Section is shown as well as the individual page number. The bottom right hand side shows an end-calendar quarter issue date. The contents page for each Module, and each Section in a Module, are each given their own issue date. In addition, the Module contents page lists the latest issue date for each Section in that Module. The contents page thus acts as a summary checklist of the current issue date in force for each Section. Further explanation is provided in Section UG-3.1 below.

Defined terms

UG-2.3.3 Defined terms used in the Rulebook are underlined. Each Volume has its own glossary listing defined terms and giving their meaning. Definitions of terms used apply only to the Volume in question. It is possible for the same term to be used in a different Volume with a different meaning.

Cross-references

UG-2.3.4 Any cross-references given in a text state the Module code, followed (where appropriate) by the numbering convention for any particular Chapter, Section or Paragraph being referred to. For example, the cross-reference FC-1.2.3 refers to the third Paragraph in the second Section of the first Chapter of the Financial Crime Module. Many references will be quite general, referring simply to a particular Module, Chapter or Section, rather than a specific Paragraph.

Text format

UG-2.3.5 Each Paragraph is assigned a complete reference to the Module, Chapter, and Section, as well as its own Paragraph number, as explained in Paragraph UG-2.3.4 above. The format of the Paragraph reference and text indicates its status as either a Rule or Guidance, as explained in Paragraph UG-1.2.4 above.

UG-2.3.6 When cross-referring to specific Paragraphs, and it is important to make clear the status of the Paragraph in question as a Rule or Guidance, then the words 'Rule' or 'Guidance' may be used instead of 'Paragraph', followed by the reference number (e.g. 'As required by Rule FC-1.1.1, licensees must...').



MODULE	UG:	User's Guide
CHAPTER	UG-3:	Rulebook Maintenance and Access

UG-3.1 Rulebook Maintenance

Quarterly Updates

- UG-3.1.1 Any changes to the Rulebook are generally made on a quarterly cycle (the only exception being when changes are urgently required), in early January, April, July and October. When changes are made to a Module, the amended Sections are given a new version date, in the bottom right-hand page.
- UG-3.1.2 The contents page for each amended Module is also updated: the table of contents is changed to show the new version date for each amended Section (in the 'Date Last Changed' column), and the contents page itself is also given its own new version date in the bottom right-hand corner. The Module contents pages thus act as a checklist for hard-copy users to verify which are the current version dates for each Section in that Module.
- UG-3.1.3 A summary of any changes made to a Module is included in the Module History Section of each Module. The table summarises the nature of the change made, the date of the change, and the Module components and relevant pages affected. The Module History can thus be used to identify which pages were updated within individual Sections.
- UG-3.1.4 Hard-copy users of the CBB Rulebook can check that they have the latest copy of each Module's contents pages, by referring to the overall table of contents for each Volume. The Volume table of contents lists the date each Module was last changed; users can use this table to check the date showing in the bottom right-hand corner of each Module's contents page.
- UG-3.1.5 The website version of the Rulebook acts at all times as the definitive version of the Rulebook. Any changes are automatically posted to the CBB website, together with a summary of those changes. Licensees are in addition e-mailed every quarter, to notify them of any changes (if any). Hard-copy users are invited to print off the updated pages from the website to incorporate in their Rulebook in order to keep it current.

Changes to Numbering

- UG-3.1.6 In order to limit the knock-on impact of inserting or deleting text on the numbering of text that follows the change, the following conventions apply:
- (a) Where a new Paragraph is to be included in a Section, such that it would impact the numbering of existing text that would follow it, the Paragraph retains the numbering of the existing Paragraph immediately preceding it, but with the addition of an "A"; a second inserted Paragraph that follows immediately afterwards would be numbered with a "B", and so on.



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CHAPTER	UG-3:	Rulebook Maintenance and Access

UG-3.1 Rulebook Maintenance

Changes to Numbering (continued)

UG-3.1.6 For example, if a new Paragraph needs to be inserted after UG-3.1.6, it would be numbered UG-3.1.6A; a second new Paragraph would be numbered UG-3.1.6B, and so on. This convention avoids the need for renumbering existing text that follows an insertion. The same principle is applied where a new Section or a new Chapter needs to be inserted: for example, UG-3.1A (for a new Section), and UG-3A (for a new Chapter)

- (b) Where a Paragraph is deleted, then the numbering of the old Paragraph is retained, and the following inserted in square brackets: '[This Paragraph was deleted in April 2006.]' (The date given being the actual end-calendar quarter date of the deletion.) The same principle is applied with respect to Sections and Chapters.

UG-3.1.7 Where many such changes have built up over time, then the CBB may reissue the whole Section, Paragraph, Chapter or even Module concerned, consolidating all these changes.



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CHAPTER	UG-3:	Rulebook Maintenance and Access

UG-3.2 Rulebook Access

Availability

UG-3.2.1 The Rulebook is available on the CBB website and on CD-ROM. Order forms for CD-ROMs are available on the CBB website or from the Licensing & Policy Directorate of the CBB; a copy is also attached to this Section. Contact details are as follows:

Rulebook Section
Licensing & Policy Directorate
Central Bank of Bahrain
P.O. Box 27
Manama
Kingdom of Bahrain

Tel: +973-17 547 413
Fax: +973-17 530 228
E-mail: rulebook@cbb.gov.bh
Web: www.cbb.gov.bh

Queries

UG-3.2.2 Questions regarding the administration of the Rulebook (e.g. website availability, the updating of material etc) should be addressed to the Rulebook Section of the Licensing & Policy Directorate (see contact details in Paragraph UG-3.2.1). Questions regarding interpretation of the policy and requirements contained in the Rulebook should be addressed to the licensee's regular supervisory point of contact within the CBB.



CBB Rulebook Order Form

INSTRUCTIONS

Please complete all relevant boxes, taking particular care to provide full contact and address details. The completed form should be sent (accompanied with the appropriate payment) to:

Central Bank of Bahrain
(Rulebook Section, Licensing & Policy Directorate)
P.O. Box 27
Manama
Kingdom of Bahrain

For enquiries, please contact:
Phone: +973 – 17 547 413
E-mail: rulebook@cbb.gov.bh

ORDER REQUIREMENT

CD-ROM¹: number required (at BD 5 each)	Cost:
POSTAGE	The above prices include postage for delivery within the Kingdom of Bahrain. Postage for international orders will be charged at cost: please contact the CBB (see above) for details of rates and delivery options.
1: CD-ROM subscribers are sent the latest available version of the complete Rulebook (i.e. the CD-ROM contains all Volumes that have been issued).	Total Cost:

ADDRESS / PAYMENT DETAILS

Name	
Institution (if applicable)	
Full Postal Address	
Contact e-mail / telephone / fax	<u>E-mail:</u> <u>Telephone:</u> <u>Fax:</u>
Please remember to enclose your payment with the order	Payment should be by cheque drawn on a Bahraini-licensed bank, payable in Bahrain Dinars. Cheques should be made out to “Central Bank of Bahrain”. Persons ordering from outside Bahrain should contact the CBB (see above) for postage rates and payment options.