



Collective Investment Undertakings Module (Module CIU)

MODULE	CIU: Collective Investment Undertakings
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CIU-A.1 Scope and Purpose

CIU-A.1.1 Module CIU (Collective Investment Undertakings) sets out the Central Bank of Bahrain's regulatory framework governing collective investment undertakings ('CIUs') that are domiciled in the Kingdom of Bahrain ('Bahrain domiciled CIUs'). It also prescribes requirements relating to CIUs that are domiciled in an overseas jurisdiction ('overseas domiciled CIUs') and offered to investors within or from the Kingdom of Bahrain.

CIU-A.1.2 Module CIU constitutes the CBB's Directive relating to CIUs and it 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'). Module CIU is applicable to all CBB licensees and other relevant persons mentioned in the Module.

CIU-A.1.3 A CIU is defined as a scheme or arrangement, the sole object of which is the collective investment of funds raised from the public or through private placements in accordance with a defined investment policy, the purpose or effect of which is to enable the participants to receive profits or income out of the investments. The definition of CIUs includes closed-ended funds as well as open-ended funds.

CIU-A.1.4 The following are excluded from the scope of this Module:

- a) A contract of insurance, insurance linked investment products or investments managed as part of a takaful contract;
- b) Unrestricted investment accounts offered by Islamic bank licensees;
- c) Unilateral arrangements for a licensee to hold or manage assets on a discretionary or non-discretionary basis;
- d) Arrangements entirely between bodies corporate who are members of the same group, or entirely between family members or between the corporate body and its own shareholders;
- e) Pension, annuity and other employee benefit schemes organised and managed for the benefit of employees or for another corporate body;
- f) Structured products which do not represent collective pooling interests under a pre-defined investment policy;
- g) Cash savings schemes;
- h) Overseas domiciled exchange traded funds which are listed securities;
- i) Equity-based and financing-based crowdfunding offers;
- j) Securities issued by Special Purpose Vehicles in connection with direct participation of investors into private equity which is subject to requirements of OFS Module of the CBB Rulebook – Volume 6;

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CIU-A.1 Scope and Purpose (Continued)

- k) Securities issuance by Special Purpose Vehicles as part of a securitisation of structure including sukuk; and
- l) The issue of securities and raising of capital by companies publicly or through private placements for the purpose of raising capital for financing the operations of the company which fall under the CBB Rulebook – Volume 6, Offering of Securities Module (Module OFS).

- CIU-A.1.5 Bahrain domiciled CIUs may be established under the various legal forms which may include the following:
- (a) A CIU established by way of a contract (“contractual CIU”) between the operator and the investors; or
 - (b) A trust established under the Legislative Decree No. 23 of 2016 in Respect of Trusts; or
 - (c) A cell within a Protected Cells Company established pursuant to Legislative Decree No. 22 of 2016 in respect to Protected Cells Companies; or
 - (d) Investment Limited Partnership established pursuant to Law No. 18 of 2016 in Respect to Investment Limited Partnerships; or
 - (e) A Bahraini Shareholding Company (closed) established under the Bahrain Commercial Companies Law.

- CIU-A.1.6 Module CIU distinguishes between CIUs that are classified as retail CIUs, which may be offered to all types of investors, and exempt CIUs, which may only be offered to accredited investors. Retail CIUs are subject to more restrictive investment rules, aimed at protecting the general retail investor. Private Investment Undertakings (PIUs) may only be offered ultra-high net-worth investors.

- CIU-A.1.7 Module CIU distinguishes between authorisation and notification depending on the type of CIU as follows:

Bahrain domiciled retail CIUs	Authorisation
Bahrain domiciled exempt CIUs	Notification
Overseas domiciled retail CIUs	Authorisation
Overseas domiciled exempt CIUs	Notification
Private Investment Undertakings (PIUs)	Notification

- CIU-A.1.8 For the purposes of Paragraph CIU-A.1.7, the authorisation process involves a review of the application and the related documentation by the CBB and an approval/rejection. Notification would involve submission of information/documents for the purpose of CBB’s monitoring.

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CIU-A.2 Module History

CIU-A.2.1 The changes made to this Module are detailed in the table below:

Summary of Changes

Module Ref.	Change Date	Description of Changes
CIU-A.1.4	10/2022	Amended Paragraph on exclusions from the scope of the Module.
CIU-A.3.1(d)	10/2022	Added a new sub-paragraph on safeguards.
CIU-A.3.1(h)	10/2022	Added a new sub-paragraph on CIUs offered in other jurisdictions.
CIU-A.3.2	10/2022	Amended Paragraph removing reference to ETFs.
CIU-1.1	10/2022	Moved Section to CIU-A.3.
CIU-1.5.3	10/2022	Amended Paragraph on appointment of an independent CBB licensed fund administrator.
CIU-1.5.19	10/2022	Added a new Paragraph on Bahrain domiciled ETFs being subject to Bahrain domiciled retail CIUs requirements.
CIU-2.1.3	10/2022	Amended Paragraph on Bahrain domiciled PIUs application fee.
CIU-2.15	10/2022	Amended Paragraph specifying type of PIUs.
CIU-2.1.6	10/2022	Amended Paragraph specifying type of PIUs.
CIU-2.1.7	10/2022	Added a new Paragraph on placement agents.
CIU-3.1.1	10/2022	Amended Paragraph on authorisation applications.
CIU-3.1.6	10/2022	Amended Paragraph on placement agent notification of ceasing to offer any overseas domiciled CIUs.
CIU-3.1.7	10/2022	Added a new Paragraph on placement agent policies and processes.
CIU-4.1.1	10/2022	Amended Paragraph on the mergers of Bahrain Domiciled CIUs.
CIU-1.2.2	07/2023	Amended Paragraph on Bahrain domiciled retail CIUs application.
CIU-1.2.4	07/2023	Amended Paragraph on Bahrain domiciled exempt CIUs application.
CIU-2.1.3	07/2023	Amended Paragraph on Operators of Bahrain domiciled PIUs application.
CIU-3.1.1	07/2023	Amended Paragraph on Overseas domiciled retail CIUs application.
CIU-1.5.7	03/2025	Amended Paragraph on the appointment of authorized asset managers.

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CIU-A.3 General Requirements

CIU-A.3.1

The operators of CIUs, or where relevant, the placement agents offering CIUs in the Kingdom of Bahrain must ensure the following:

- (a) The CIU is offered by qualified individuals who possess the ability to explain the nature, structure, investment objectives and the risks associated with investing in the CIU to investors in a manner that is clear, fair and not misleading;
- (b) The investor's profile and suitability assessments have been undertaken in determining if he is eligible to invest in the CIU being offered;
- (c) The investors submit a declaration stating that they have read the offering documents, understand the investment objectives and are familiar with associated risks;
- (d) Safeguards are established for the CIU participants with regards to governance, investment management, custody arrangements, administration and disclosures;
- (e) The investors have access to the periodic reports specified in the offering documents in a timely manner;
- (f) Any client complaints and/or enquiries from investors are addressed including the provision of information to investors as may reasonably be required in accordance with the terms of the offering memorandum;
- (g) They comply at all times with the laws of the Kingdom of Bahrain and the regulations of the CBB, including those related to AML/CFT;
- (h) Licensees offering CIUs in other jurisdictions must ensure full compliance with all legal and regulatory requirements in such jurisdictions.

CIU-A.3.2

Real Estate Investment Trusts (REITs), Venture Capital CIUs, Hedge Funds and Money Market Funds must be in accordance with the relevant CIU's investment objectives and they reflect the substance of the specialised nature of the CIU.

CIU-A.3.3

A relevant person of a Bahrain domiciled CIU shall be liable for losses suffered by a CIU participant because of that relevant person's unjustifiable failure to perform its obligations required under the CBB Law or the CBB Rulebook. The CBB does not permit relevant persons to rely on disclaimers (written or otherwise) that have the effect of restricting their liability beyond an amount considered to be reasonable and customary in the fund management industry. Accordingly, relevant persons must ensure that the contractual arrangements reflect this.

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CIU-1.1 [This Section was deleted and moved to CIU-A.3 in October 2022]

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CHAPTER	CIU-1	Bahrain Domiciled CIUs

CIU-1.2 CIU Establishment and Fees

CIU-1.2.1

Bahrain domiciled CIUs must be constituted by way of instruments/documents in accordance with a legal form or arrangement listed in Paragraph CIU-A.1.5. Any subsequent changes to the documents referred to in the instrument/documents constituting the CIU must be notified to the CIU participants and to the CBB.

CIU-1.2.2

Bahrain domiciled retail CIUs must be authorised by the CBB prior to being offered to investors. Applicants must fill in Form 1 (Retail CIU Application Form) online, available on the CBB website under E-services/online Forms. Each application must be accompanied by a processing fee of BD 100 upon submission of the application. Each Bahrain domiciled CIU is subject to an annual fee of BD 2,000 payable each year before 31 March.

CIU-1.2.3

All applications for authorisation will be processed within 5 working days following the submission of all required information and documents. The CBB has the right to reject an application, revoke a previous authorisation, or instruct a CIU operator to stop offering/marketing a CIU if the CBB believes it necessary in order to safeguard the interests of potential investors. The third-party certification referred to in Paragraph CIU-1.2.2 should report on the authenticity of the documentation and on compliance with Module CIU and the CBB Rulebook requirements applicable to the CIU operator and the relevant persons of the CIU. Such report may be addressed to the CBB or, alternatively, to the CIU operator's Board of Directors.

CIU-1.2.4

Bahrain domiciled exempt CIUs may only be offered to investors following a notification 5 days prior to offering the CIU to investors. Applicants must fill in Form 2 (Exempt CIU/PIU Notification Form) online, available on the CBB website under E-services/online Forms.

CIU-1.2.5

In case a Bahrain domiciled CIU does not deploy funds raised in accordance with the investment objectives within 6 months from the date of its authorisation/notification, the CIU operator must inform the CBB in writing the reasons for non-deployment of funds. The CBB may require the CIU operator to return any monies collected from CIU participants together with any subscription fees charged.

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CIU-1.2 CIU Establishment and Fees

CIU-1.2.6 For the purposes of this Module, the operator of a Bahrain domiciled exempt CIU may enter into arrangements with unregulated third-party sponsors/originators/promoters on whose behalf the CIU is established. Such arrangements may include ability of the third-party to participate in decisions in relation to investment management. In all such circumstances, a CBB licensed CIU operator or placement agent will take responsibility for compliance with the requirements in this Module and the relevant requirements under the rulebook.

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CIU-1.3 Offering of CIUs

CIU-1.3.1

The offering documents of a Bahrain domiciled CIU, whether in the form of a prospectus or information memorandum, must include the information, in a manner that is clear, fair and not misleading, necessary for investors to be able to make an informed judgement of the investment proposed to them and the relevant risks. The offering documents must include the following information at a minimum:

- (a) The nature of the CIU, including a description of the legal status of the CIU, registered address and other characteristics (such as protected cells or sub-funds, exchange listings if applicable), whether it is authorised/registered, the date it was established and how long it will continue;
- (b) The CIU objectives, investment strategy including any limitations on investment strategies and any anticipated borrowing or leverage;
- (c) Description of rules for determining and applying income and capital benefits, and potential rewards;
- (d) The risk associated with investing in the CIU;
- (e) The costs, fees, taxes, upfront or back end exit fees and other charges or expenses associated with an investment in or redemption of the CIU, including a description of how they are determined, their frequency, and whether they are payable directly by CIU participants or the CIU;
- (f) Information concerning the manner, amount and calculation of remuneration payable by CIU to the operator, the custodian and other relevant persons;
- (g) Key details of the valuation methodology, valuation frequency and relevant international standards that would be applied for valuing the underlying investments, particularly for investments that are not traded in a recognised market to ensure the assets are fairly and accurately valued and that NAV is calculated accurately as appropriate;
- (h) Classes of units or other participant interests and, if any rights of any class of units or other participant interests differ, a statement describing those differences in relation to the differing classes;
- (i) Rules for issuance, subscription, redemption and distribution and for the determination of the sale or issue price and the repurchase or redemption price of units, in particular the method and frequency of the calculation of those prices and information concerning the means, places and frequency of the publication of those prices;

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CIU-1.3 Offering of CIUs (Continued)

- (j) The date of issue of the offering documents;
- (k) Accounting and distribution frequency of periodic reports, including the annual audited financial statements and the semi-annual financial statements to CIU participants;
- (l) How and what information a CIU participant can obtain about the performance of the CIU (such information must be provided free of charge);
- (m) Key details including contact information about the CIU operator and other relevant persons such as the external investment managers, prime brokers, fund administrators, custodians, and external auditors including their country of domicile and description of their duties and any conflicts of interest that may arise and measures to mitigate such conflicts of interest;
- (n) Procedures for notifications to, or approval by CIU participants for changes to the terms of the offering or appointments of third-party investment managers;
- (o) Financial information of the CIU including historic information (if any);
- (p) The key operating rules of the CIU, including the key CIU participants' rights such as ability to purchase and redemption rights;
- (q) The amount of any seed capital/investment invested in the CIU (if any), by who, and intention regarding retaining the seed capital/investment in the CIU or redeeming it;
- (r) A summary of circumstances in which the CIU can be merged, transferred or terminated.

CIU-1.3.2 Bahrain domiciled exempt CIUs may choose an applicable law of an overseas jurisdiction. If the jurisdiction for disputes is overseas, the investor should be made aware at the time of marketing /offering the CIU.

CIU-1.3.3

The CBB must be notified for changes to offering documents which requires specific approval of CIU participants as per the terms of the offering documents.

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CIU-1.3 Offering of CIUs (Continued)

- CIU-1.3.4** In respect of exempt CIUs, the CIU operator must ensure the following:
- (a) Disclose to the CIU participant that the CIU is only suitable for those who are treated as accredited investors for the purposes of this Module and, as such, are not subject to the CBB requirements otherwise applicable to CIUs offered to retail investors and that the exempt CIUs are not subject to the CBB's on-going supervision;
 - (b) Obtain a written statement (either at the time of onboarding the client or at the time of offering the CIU) from the investor expressly agreeing that the investor:
 - a. falls within the definition of accredited investor and has accepted the reduced investor safeguards available on Bahrain domiciled retail CIUs;
 - b. understands that an investment in an exempt CIU may involve special risks that could lead to a loss of all or a substantial portion of such investment.

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CIU-1.4 Reporting Requirements

CIU-1.4.1

Operators of retail CIUs must distribute, electronically (and if the operator so chooses also in hard copy format) audited annual financial statements of the CIU within 4 months of the year-end and reviewed semi-annual financial statements within 2 months of the period-end. Operators of exempt CIUs are required to distribute an annual report within 4 months of the year-end.

CIU-1.4.2

The annual report of a Bahrain domiciled CIU must include the following:

- (a) The report of the Board of Directors together with the names of directors and the relevant persons associated with the CIU;
- (b) Audited financial statements, prepared in accordance with IFRS or AAOIFI standards, as applicable, which should include in addition to a balance sheet and income statement a statement of changes in net assets attributable to holders of units;
- (c) Details of the investment portfolio classified in accordance with the criteria specified in the offering memorandum policy, their proportion to the net asset value of the CIU, and for unit based CIUs, number of units, and NAV per unit;
- (d) The amount of fees, charges and remuneration including any performance fee or carried interest where relevant paid to the operator and to other relevant persons (such as custodian and fund administrator);
- (e) Developments concerning the CIU investments during the reference period including income from investments, other income, net income, distributions and income reinvested, increase or decrease of capital accounts, and appreciation or depreciation of investments;
- (f) A comparative table covering the preceding 3 financial years (unless the CIU was not in operation for 3 full years in which case, for each year of operation) and including, for each financial year, at the end of the financial year:
 - a. The total net asset value; and
 - b. The net asset value per unit for open ended funds;
- (g) Transactions and arrangements with connected parties of the CIU operator; and
- (h) The Shari'a advisor report for Shari'a-compliant CIUs.

CIU-1.4.3

The semi-annual financial statements must at least include the information required under Sub-paragraphs CIU-1.4.2 (a) to (f).

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CIU-1.4 Reporting Requirements (continued)

CBB Reporting

CIU-1.4.4

The CIU operator is required to report the following to the CBB:

- (a) Any periodic or adhoc reports provided to the CIU participants within the same deadline;
- (b) The Quarterly Statistical Return (Form CIU-QS, Part B of Volume 7) within 30 days of each quarter end; and
- (c) The following information as soon as reasonably practicable but no later than 30 calendar days, in the event of any:
 - a. Breaches of terms and conditions of the offering including breaches in investment limits;
 - b. Any suspension or deferral of issuance or redemption;
 - c. Any legal claims or disputes involving the CIU;
 - d. Any material changes in relation to the CIU which would impact the accuracy of the information provided to the CBB including a change in any relevant persons of the CIU;
 - e. Any non-compliance with the CIU's AML/CFT obligations; and
 - f. Details of unresolved customer complaints involving the CIU.

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CIU-1.5 Governance and Risk Management

CIU-1.5.1 The operator of a Bahrain domiciled CIU is ultimately held accountable for conducting the operations diligently and for governance, internal control and compliance arrangements in relation to the CIU. The operator must ensure that if any roles are delegated, the arrangements ensure full compliance with the CBB requirements.

CIU-1.5.2 The operators of Bahrain domiciled retail CIUs must appoint:

- (a) An independent CBB licensed custodian (The role of the fund administrator may, however, be combined with that of a CBB licensed custodian);
- (b) An independent CBB licensed fund administrator; and
- (c) An independent Bahrain based external auditor.

CIU-1.5.3 The operators of Bahrain domiciled exempt CIUs that are established as contractual CIUs must comply with the following:

- (a) Appoint an independent CBB licensed custodian;
- (b) Appoint an independent CBB licensed fund administrator; and
- (c) Appoint an independent Bahrain based external auditor.

CIU-1.5.4 The operators of Bahrain domiciled exempt CIUs that are not established as contractual CIUs are required to comply with the following requirements:

- (a) Appoint an independent CBB licensed custodian for open-ended CIUs;
- (b) The fund administration activity must be carried out in the Kingdom of Bahrain, either by the operator or by a custodian authorised to provide fund administration services; and
- (c) Appoint an independent Bahrain based external auditor.

CIU-1.5.5 The CBB will allow 'hub and spoke' arrangements with regards to custody, provided that:

- a) A suitably licensed office is maintained in Bahrain, through which the CBB can access the CIU's records;
- b) The overseas office belongs to the same group as the Bahrain custodian, and regulated by a reputable regulatory authority acceptable to the CBB;
- c) The custodian retains ultimate responsibility for the CIU's assets; and
- d) Suitable outsourcing arrangements have been put in place.

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CIU-1.5 Governance and Risk Management (continued)

CIU-1.5.6 The CBB may allow, on a case-by-case basis, the outsourcing of certain tasks linked to the function of the fund administration to an entity located abroad, subject to certain conditions and under the responsibility of the Bahraini fund administrator.

CIU-1.5.7

The CIU operator may appoint another entity to act as investment manager of the CIU, provided there are no conflicts of interests (See also Paragraph CIU-1.5.15). The CBB as a matter of principle has no objection to such an arrangement provided that the operator has the ability to terminate the arrangement and also ensures that such arrangements are legally binding on the parties involved. In particular, the CIU operator must confirm to the CBB that:

- (a) The operator can demonstrate that the investment manager has the capabilities and resources to carry out its functions;
- (b) The arrangement does not prevent the CBB from effective supervision or access to the operator;
- (c) The arrangement does not prevent the operator from acting, or the CIU from being managed, in the best interests of the CIU participants;
- (d) The investment managers must be authorised to undertake asset management whether in the Kingdom of Bahrain or in overseas jurisdictions;
- (e) Where under the requirements of this Module, the CIU requires a custodian or a fund administrator who is independent of the operator of the CIU, such person (i.e. custodian or fund administrator) must not also act as the investment manager for that CIU.

Custody

CIU-1.5.8

Custody activities involve safeguarding the assets of the CIU and include the following:

- (a) To open, maintain and control CIU cash accounts with licensed banks (used for subscription and trading) in all relevant markets;
- (b) To open and maintain CIU securities accounts with authorised institutions;
- (c) To directly collect and receive all income and other payments, distributions and entitlements pertaining to a CIU;
- (d) To ensure that the cash flows of the CIU are properly monitored;

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CIU-1.5 Governance and Risk Management (continued)


- (e) To make all payments and settlements on behalf of and for the interest of the CIU, in accordance with the CIU investment objectives, offering documents and within the time limits set by the arrangements between the operator and the custodian;
- (f) To record the financial instruments and assets of the CIU in accounts segregated from the custodian's own books and books of its other clients;
- (g) To ensure that all assets belonging to the CIU are held in the name of the CIU or, where relevant market practices and/or legal requirements dictate, held on behalf of the CIU;
- (h) To execute any corporate actions;
- (i) To maintain records and documentation relating to all transactions made on behalf of the CIU;
- (j) To provide the operator on a regular basis with a comprehensive inventory of all the assets of the CIU;
- (k) The financial instruments and assets of the CIU held in custody must not be reused by the custodian, or by any third party, for their own account. Reuse comprises any transaction of assets held in custody including, but not limited to, transferring, pledging, selling and lending;
- (l) Any delegation of custodian role to sub-custodian must be approved by the operator and the custodian remains ultimately accountable for the custody and will be liable to the operator and CIU participants in case of any loss of the assets or financial instruments; and
- (m) To reconcile the statements obtained from sub-custodians, brokers and agents, on a regular and timely basis with its own CIU records.

Fund Administration

CIU-1.5.9

Fund administration activities include the following:

- (a) Fund accounting (including tax returns) and record keeping services for the CIU;
- (b) Maintain a register of CIU participants unless this role is performed independently by another party;
- (c) Preparation of semi-annual and annual accounts for the CIU;
- (d) Preparation of the Quarterly Statistical Report (Form CIU-QS);
- (e) Calculation of dividends, service providers' fees, performance fees (if any) and other distributions;

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CIU-1.5 Governance and Risk Management (continued)

- (f) To ensure that the sale, issue, repurchase, redemption and cancellation of CIU units, their value calculations and income application are carried out in accordance with the requirements of the offering documents and the operator's mandate;
- (g) Valuation, pricing and calculation of NAV;
- (h) Report to the CBB any non-compliance with CIU investment objectives and other terms of the offering documents and relevant regulations of the CBB in relation to the CIU; and
- (i) Handling of client enquiries on matters such as relevant to calculation of NAV and issue and redemption prices.

CIU-1.5.10 The obligation referred to in Paragraph CIU-1.5.9 (h) requires that the fund administrator brings to the attention of the CBB any irregularities and or violation of the requirements of the CBB or the terms of the offering document that come to its attention during the normal course of undertaking its own functions with regards to the CIU for which administration service are provided. The fund administrator shall undertake its functions with diligence and due care. Examples of such deviations or violations can include, assets not in accordance with the investment policy, any noted breaches in liquidations of assets etc. identified based on data available to the fund administrator.

Investment and Risk Management

CIU-1.5.11

The operator must adhere to the investment strategies and risk limits disclosed in the offering documents and agreed with the CIU participants. The operator must implement adequate risk management systems and processes in order to identify, manage and monitor the risks relevant to each CIU.

Valuation

CIU-1.5.12

CIU operators must ensure that, for each CIU that they operate, appropriate and consistent procedures are established so that a proper and independent valuation of the CIU assets can be performed. These procedures must be consistent with the constituent and offering documents of the CIU. The operator must ensure:

- (a) Comprehensive, documented policies and procedures, that are aligned to IFRS/AAOIFI or other accepted accounting and valuation standards are established to govern the valuation of assets held or employed by a CIU and for periodic calculation of net asset values (NAV) and reporting and disclosure of the same to CIU participants;

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CIU-1.5 Governance and Risk Requirements (continued)

- (b) The policies and procedures clearly identify the methodologies, tools and procedures that will be used for valuing each type of asset held by the CIU;
- (c) The assets held by the CIU are consistently valued according to the policies and procedures;
- (d) The valuation policies and procedures address any current or potential conflicts of interest;
- (e) The policies and procedures in place seek to detect, prevent, and correct pricing errors;
- (f) The pricing errors (i.e. calculation errors) that result in material harm to CIU participants are addressed promptly, and CIU participants fully compensated;
- (g) There are arrangements in place for the periodic review of the valuation policies and procedures to ensure their continued appropriateness and effective implementation; and
- (h) A third-party (e.g. external auditor) is appointed to review the CIU valuation process at least annually.

CIU-1.5.13 The valuation/pricing of listed securities must be obtained from the exchanges, bourses, or platforms on which the assets are listed. The valuation of unlisted securities and for listed securities for which the latest quotation is not representative must be based on the probable realisation value, estimated with international best practices. The valuation of illiquid asset classes, like real estate or private equity must be done by an independent third-party valuation agent or expert in the asset class.

CIU-1.5.14 The frequency of valuations depends on the type of CIU. For open-ended CIUs, such valuations and calculations must be carried out at a frequency which is both appropriate to the nature of underlying assets and its issuance and redemption frequency. For closed-ended CIUs, such valuations and calculations must be carried out in case of an increase or decrease of the capital of the CIU. In all cases, the valuation procedures used must ensure that the assets are valued and the net asset value per unit is calculated at least once a year.

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CIU-1.5 Governance and Risk Requirements (continued)

Managing Conflicts of Interests

CIU-1.5.15

CIU operators must take reasonable steps to identify, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the CIU participants. In particular, the CIU operators must:

- (a) Segregate, within their own operating environment, tasks and responsibilities which may be regarded as incompatible with each other or which may potentially generate systematic conflicts of interest (e.g. using ‘information barriers’ or ‘Chinese walls’);
- (b) Clearly disclose the general nature or sources of conflicts of interest to the CIU participants before undertaking business on their behalf;
- (c) Ensure that arrangements with any connected parties are conducted at commercial terms (arm’s length basis) and that such relationships are disclosed in all documents distributed to CIU participants, except however, that no investments may be made by in a financial instrument issued by a connected party in excess of 20% of the net assets;
- (d) Not lend CIU assets to a relevant person of the CIU, except in a stock lending arrangement with a licensed bank in respect of any securities with aggregate value not exceeding 20% of the net assets of the CIU’s assets, provided that it is disclosed in the offering; and
- (e) Develop appropriate policies and procedures to identify and prevent or manage conflicts of interest internally and with third parties such as the custodian and fund administrator and make the policy available to CIU participants.

CIU-1.5.16

Notwithstanding CIU-1.5.15 (c), the custodian and /or the fund administrator of a Bahrain domiciled CIU must not be participants in the CIU in respect of which they are contractually engaged to offer custody and/or fund administration services as the case may be.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-1 Bahrain Domiciled CIUs

CIU-1.5 Governance and Risk Requirements (continued)

Specific Conditions for Retail CIUs

CIU-1.5.17

The assets of a Bahrain domiciled retail CIU must comprise only one or more of the following:

- (a) Securities traded on the licensed exchanges:
 - i. Shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;
 - ii. Bonds or other forms of securitised debt, sukuk including depositary receipts in respect of such securities; and
 - iii. Any other securities, including accepted crypto-assets traded actively on recognised exchanges (to be demonstrated to the CBB by the CIU operator) giving the right to acquire or sell any such securities or giving rise to a cash settlement determined by reference to such securities, currencies, interest rates or yields, commodities or other indices or measures.
- (b) Money market instruments listed on a regulated market;
- (c) Sovereign securities such as treasury bonds and sukuk;
- (d) Units of other Bahrain domiciled CIUs or overseas domiciled retail CIUs investing in liquid investments;
- (e) Bank deposits which are repayable on demand or maturing in no more than 12 months;
- (f) Financial derivative instruments, including equivalent cash- settled instruments, listed on a regulated market;
- (g) Over the Counter (OTC) financial derivative provided that
 - i. The underlying consists of instruments such as financial indices, interest rates, foreign exchange rates or currencies, in which the retail CIU may invest according to its investment objectives;
 - ii. The counterparties to OTC derivative transactions are institutions subject to prudential supervision; and
 - iii. The OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the operator's initiative.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-1 Bahrain Domiciled CIUs

CIU-1.5 Governance and Risk Requirements (continued)

- (h) Real estate in the case of Real Estate Investments Trusts (REITs) provided they are established under the Trust Law and meet the following conditions:
- i. Unless otherwise agreed with the CBB, the REIT must hold a minimum of 2 real estate properties, comprising of at least 80% of the REIT's NAV;
 - ii. A maximum of 20% of the REIT's NAV may be invested in the development of existing owned property;
 - iii. A maximum of 20% of the REIT's NAV may be invested in other REITs, subject to 10% investment per REIT;
 - iv. Other assets of the REIT must be held in cash and cash equivalents;
 - v. Invest in undeveloped land and mortgages is not permitted; and
 - vi. leverage is limited to a maximum of 50% of its NAV for investment purposes.

CIU-1.5.18

The principal focus of retail CIUs is portfolio diversification and liquidity and as such the investments of a Bahrain domiciled retail CIUs must adhere to prudent limits and standards governing investment portfolio composition, liquidity and risk management. Such limits and standards must be disclosed in the offering documents. The risk management measures must include:

- (a) investment policy on avoidance of excessive risk, for example significant exposure to derivatives, indices or other complex financial instruments;
- (b) avoidance of excessive leverage and single exposure concentrations including for cash with banks; and
- (c) maintenance of adequate cash and liquid funds to meet redemption and distribution needs.

CIU-1.5.19 Bahrain domiciled Exchange Traded Funds (ETFs) are subject to requirements applicable to Bahrain domiciled retail CIUs.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-2 Private Investment Undertakings

CIU-2.1 Private Investment Undertaking

CIU-2.1.1 PIUs are CIUs that are offered only to ultra-high net worth investors. The operator of a Bahrain domiciled PIU must be a CBB licensee (who is authorised to undertake the regulated activity of acting as a CIU operator) or an overseas operator/fund manager regulated in a reputable jurisdiction and in a manner acceptable to the CBB. Overseas domiciled PIUs may only be marketed by a Bahrain based placement agent who is authorised by the CBB to undertake such activity and has the necessary legally binding arrangements with the overseas operator/fund manager.

CIU-2.1.2 For PIUs, the role of the CBB is limited to obtaining statistical information for the purpose of monitoring developments in the financial sector. PIUs are not subject to CBB's on-going supervision.

CIU-2.1.3 Operators of Bahrain domiciled PIUs or the placement agents of overseas domiciled PIUs must submit the PIU notification form. Applicants must fill in Form 2 (Exempt CIU/PIU Notification Form) online, available on the CBB website under E-services/online Forms. Bahrain domiciled PIUs are subject to an application fee of BD100 and an annual fee of BD 2,000 payable each year before 31 March.

CIU-2.1.4 The operator of a Bahrain domiciled PIU must establish a structure for the PIU which ensures safeguards for the CIU participants with regards to governance, investment management, custody arrangements, administration and disclosures to CIU participants.

CIU-2.1.5 The operator of a Bahrain domiciled PIU, or where relevant, the placement agent of an overseas domiciled PIU must ensure the following:

- (a) Disclose that the PIU is only suitable for those who fall within the definition of ultra-high net worth investors;
- (b) Obtain a written statement from the investor expressly agreeing that:
 - a. he falls within the definition of ultra-high net worth investors and accept the reduced regulatory requirements accordingly;
 - b. he is wholly responsible for ensuring that all aspects of the PIU are acceptable to him;
 - c. he understands that an investment in a PIU may involve special risks that could lead to a loss of all or a substantial portion of such investment and unless he understands the potential risks, he will not invest in the PIU; and

MODULE	CIU:	Collective Investment Undertakings
CHAPTER	CIU-2	Private Investment Undertakings

CIU-2.1 Private Investment Undertaking (continued)

- d. he acknowledges that the PIU is not subject to the CBB's ongoing supervision.

CIU-2.1.6 The operator of a Bahrain domiciled PIU, or where relevant, the placement agent of an overseas domiciled PIU must report to the CBB, 30 calendar days of each quarter end, the total net asset value of the PIU with details as follows:

- (a) Resident institutions;
- (b) Resident individuals;
- (c) Non-resident institutions; and
- (d) Non-resident individuals.

CIU-2.1.7 The placement agent is required to notify the CBB if it ceases to offer any overseas domiciled PIUs. The notification must include the name of the PIU, the date on which it ceased offering the PIU to investors and a confirmation that there are no outstanding obligations to CIU participants. The notification must be provided within 10 working days from the date when all obligations to CIU participants have been discharged.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-3 Overseas Domiciled CIUs

CIU-3.1 General Requirements

CIU-3.1.1 Overseas domiciled retail CIUs are subject to authorisation by the CBB prior to being offered to investors in the Kingdom of Bahrain. The authorisation application will be processed within 5 working days. Overseas domiciled exempt CIUs may only be offered to investors following a notification 5 days prior to offering the CIU to investors. Depending on the CIU category, applicants must fill in Form 1 (Retail CIU Application Form) or Form 2 (Exempt CIU/PIU Notification Form) online, available on the CBB website under E-services/online Forms. (Overseas domiciled PIUs are covered under Chapter CIU-2).

CIU-3.1.2 Overseas domiciled CIUs must only be distributed by placement agents who hold an appropriate CBB license under CBB Rulebook – Volumes 1, 2, or 4 (Categories 1, 2 and 4 only), permitting them to market financial instruments and who are domiciled in the Kingdom of Bahrain.

CIU-3.1.3 For overseas domiciled retail CIUs, the following requirements apply:

- (a) The operator of the CIU must be regulated in a jurisdiction acceptable to the CBB and the CIU must be capable of being sold to retail investors in the home jurisdiction;
- (b) Laws and practices of the jurisdiction which govern the CIU provide safeguards to investors in a manner acceptable to the CBB; and
- (c) The CBB is satisfied that the terms and conditions contained in the offering documents, and the roles, responsibilities and compliance obligations of the overseas fund manager or operators provide safeguards to investors in a manner acceptable to the CBB.

CIU-3.1.4 For the purposes of Paragraph CIU-3.1.3, overseas domiciled retail CIUs that comply with reputable regulatory frameworks such as CIUs compliant with the European Undertaking Collective Investment in Transferable Securities (UCITS) Directive will be subject to simplified and fast track registration process.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-3 Overseas Domiciled Funds

CIU-3.1 General Requirements (Continued)

- CIU-3.1.5** The placement agent is required to report the following to the CBB:
- (a) The Quarterly Statistical Return (Form CIU-QS, Part B of the CBB Rulebook – Volume 7) within 30 days of each quarter end; and
 - (b) The following information as soon as reasonably practicable but no later than 30 calendar days, in the event of any
 - a. Breaches of terms and conditions of the offering including breaches in investment limits;
 - b. Any suspension or deferral of issuance or redemption;
 - c. Any legal claims or disputes involving the CIU;
 - d. Any material changes in relation to the CIU which would impact the accuracy of the information provided to the CBB including a change in any relevant persons of the CIU;
 - e. Any non-compliance with the CIU's AML/CFT obligations; and
 - f. Details of unresolved customer complaints involving the CIU.

- CIU-3.1.6** The placement agent is required to notify the CBB if it ceases to offer any overseas domiciled CIUs. The notification must include the name of the CIU, the date on which it ceased offering the CIU to investors and a confirmation that there are no outstanding obligations to CIU participants. The notification must be provided within 10 working days from the date when all obligations to CIU participants have been discharged.

- CIU-3.1.7 The placement agent should establish policies and processes to ensure that clients are made aware of risks of investing in overseas domiciled exempt CIUs and the risks of investing in CIUs that are not regulated in their home jurisdictions. The placement agent should also ensure that the policies and procedures require such CIUs to be offered to only accredited investors.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-4 Mergers and Transfers

CIU-4.1 Mergers and Transfers

CIU-4.1.1 The CBB's prior written approval must be obtained for any mergers of Bahrain domiciled CIUs or transfer of its assets to another CIU. The CBB approval will consider how such event would impact the investors and whether their concerns are addressed sufficiently. The CBB must be notified of any proposed merger of overseas domiciled CIUs or transfer of its assets to another CIU.

CIU-4.1.2 The operator of Bahrain domiciled CIUs must provide the following information to the CBB in the approval requests required in Paragraph CIU-4.1.1:

- (a) The terms of the proposed merger approved by both parties;
- (b) Up to date version of the offering documents;
- (c) Confirmation from the custodians, and where relevant the fund administrators, of both the merging and the receiving CIU that the type of merger, the process and the date of the merger are in compliance with the constituent and offering documents of the CIU and the relevant laws and regulations of the Kingdom of Bahrain;
- (d) Report of the external auditor confirming valuation of the assets and liabilities on the date for calculating the exchange ratio, the cash payment per unit (where applicable), and the calculation method of the exchange ratio and the actual exchange ratio determined at the date for calculating that ratio; and
- (e) The information on the proposed merger that the operators intend to provide to their respective CIU participants.

CIU-4.1.3 The operator of Bahrain domiciled CIUs must provide the following information to the CIU participants, following receipt of written approval from the CBB referred to in Paragraph CIU-4.1.1, and at least thirty days before the last date for requesting repurchase or redemption or conversion without additional charge:

- (a) Identification of the type of merger and of the CIUs involved;
- (b) The background to and rationale for the proposed merger;
- (c) The expected impact of the proposed merger on the CIU participants of both CIUs including but not limited to any material differences in respect of investment policy and strategy, costs, expected outcome, periodic reporting, possible dilution in performance, and, where relevant, changes in tax treatment following the merger;

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-4 Mergers and Transfers

CIU-4.1 Mergers and Transfers (continued)

- (d) Any specific rights CIU participants have in relation to the proposed merger, including the right to obtain additional information, the right to obtain or request a copy of the report of the external auditor, the independent valuer or the custodian where relevant, and the right to request the repurchase or redemption or the conversion of their units without charge;
- (e) The criteria adopted for valuation of the assets and, where applicable, the liabilities on the date for calculating the exchange ratio of units of the merging CIU into units of the receiving CIU for determining the relevant net asset value;
- (f) The calculation method of the exchange ratio;
- (g) The cash payment per unit (where applicable);
- (h) The planned effective date of the merger; and
- (i) The rules applicable, respectively, to the transfer of assets and the exchange of units.

CIU-4.1.4

For open-ended Bahrain domiciled retail CIUs where there is a proposed merger or transfer, the CIU participants have the right to request, without any charge other than those retained by the CIU to meet disinvestment costs, the repurchase or redemption of their units or, where possible, to convert them into units in another CIU with similar investment policy and managed by the same operator or by any other licensee with which the operator is linked by common management or control, or by a substantial direct or indirect holding. This right will become effective from the moment that the CIU participants have been informed of the proposed merger or transfer and will cease to exist five working days before the date for calculating the exchange ratio.

CIU-4.1.5

During the merger or transfer process, the relevant CIU operator may temporarily suspend the subscription, repurchase or redemption of units, provided that any such suspension is justified for the protection of the CIU participants. The CBB may also require the temporary suspension of the subscription, repurchase or redemption of units, for the protection of the CIU participants.

MODULE	CIU: Collective Investment Undertakings
CHAPTER	CIU-5 Winding-up Process

CIU-5.1 CIU Winding-up Process

CIU-5.1.1 The operator of a Bahrain domiciled CIU must seek the approval of the CBB prior to taking any step to wind-up a Bahrain domiciled CIU.

CIU-5.1.2 The operator of a Bahrain domiciled CIU must give at least one month's written notice, as a minimum, to CIU participants of their intention to wind-up the CIU, together with an explanation for such intention. A copy of this notice must be provided to the CBB at the time it is issued to CIU participants.

CIU-5.1.3 The operator of a Bahrain domiciled CIU must ensure that the CIU continues to meet its contractual obligations and comply with all applicable CBB requirements, until such time as it is formally notified by the CBB that it has been formally removed from the CBB's register.

CIU-5.1.4 Upon completion of the winding-up process, the operator of a Bahrain domiciled CIU must submit the following to the CBB:

- (a) The final report from the liquidator/external auditor confirming the completion of the winding-up process and the final audited accounts of the CIU;
- (b) An independent verification by the external auditor that the CIU's assets have been distributed to CIU participants; and
- (c) A request for the CIU to be removed from the CBB's register of CIUs.

CIU-5.1.5 If the fund company relating to a Bahrain domiciled CIU is being liquidated, prior CBB approval must be obtained following the submission of a Board resolution and any necessary legal documents.