



# **BAHRAIN DOMICILED EXEMPT CIUs MODULE**



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MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-A: Introduction

## BDX-A.1 Purpose

### *Executive Summary*

BDX-A.1.1 This Module sets out the Central Bank of Bahrain's (CBB) requirements for Bahrain Domiciled Exempt CIUs.

### *Legal Basis*

**BDX-A.1.2** This Module contains the CBB's Directive (as amended from time to time) regarding Bahrain domiciled exempt CIUs applicable to collective investment undertakings 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').

BDX-A.1.3 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



<b>MODULE</b>	<b>BDX: Bahrain Domiciled Exempt CIUs</b>
<b>CHAPTER</b>	<b>BDX-A: Introduction</b>

## **BDX-A.2 Module History**

### ***Evolution of Module***

- BDX-A.2.1 This Module was first issued in April 2007, as part of the initial release of the contents of Volume 6 (Capital Markets); it was given an effective date of 1 June 2007, with a one-year transition for existing CIUs.
- BDX-A.2.2 The Module was subsequently revised in April 2012, by the addition of several sections catering for the role and responsibilities of relevant persons, the registration and authorisation requirements, corporate governance, and other relevant Chapters and has been reissued as Volume 7.
- BDX-A.2.3 A list of recent changes made to this Module subsequent to the April 2012 revision is provided below:

Module Ref.	Change Date	Description of Changes

### ***Superseded Requirements***

- BDX-A.2.4 This Module supersedes the following provisions contained in circulars or other regulatory instruments:

Circular / other reference
Volume 6 Module CIU

- BDX-A.2.5 Further guidance on the implementation and transition to Volume 7 (Collective Investment Undertakings) is given in Module ES (Executive Summary).



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-B: Definition

## BDX-B.1 Definition

**BDX-B.1.1** Bahrain domiciled exempt CIUs are defined in Rule ARR-B.1.18 as CIUs that are lightly regulated and may be offered only to accredited investors, and impose a minimum initial investment of USD100,000 (or equivalent in any other currency).

**BDX-B.1.2** A Bahrain domiciled exempt CIU must be able to demonstrate that each of its participants falls within the definition of an accredited investor. It should also be able to demonstrate that the risk exposure potentially represented by a Bahrain domiciled exempt CIU has been clearly communicated and understood by the CIU participants.

BDX-B.1.3 To help demonstrate compliance with Rule BDX-B.1.2, the CBB would expect to see a written confirmation from each CIU participant, stating that they satisfy the definition of an accredited investor and confirming that they understand the higher risks involved in an exempt CIU.

### *Registration Requirements*

**BDX-B.1.4** Bahrain domiciled exempt CIUs must be registered by the CBB prior to being offered to investors, in accordance with the requirements set out in Chapter ARR-4 of Module ARR.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-1: Document Constituting the CIU

## BDX-1.1 General Requirements

**BDX-1.1.1** Every Bahrain domiciled exempt CIU must be constituted by way of documents, containing the information listed in Supplementary Information document ARR(i), in Part B of Volume 7.

BDX-1.1.2 In the case of CIUs established as Common CIUs established under the laws of contract, the documents are the Memorandum and Articles of Association of the fund company and the CIU instrument. In the case of Corporates established under the Bahrain Commercial Companies Law, the documents are the Memorandum and Articles of Association. In the case of CIUs established as Trusts under the Financial Trust Law, the legal document is the trust deed

**BDX-1.1.3** The operator of a Bahrain domiciled exempt CIU together with the directors of the CIU concerned, or trustees, as appropriate, must ensure that the documents constituting the CIU:

- (a) Do not contain information that is false or misleading;
- (b) Do not contain any provisions that conflict with either CBB requirements or other laws and regulations, that may apply to the operator, fund manager and other relevant persons to the CIU; and
- (c) Is not unfairly prejudicial to the interests of the CIU participants, either generally or to a particular class of CIU participants.

**BDX-1.1.4** The operator of a Bahrain domiciled exempt CIU together with the directors of the CIU concerned, or trustees, as appropriate, must maintain the documents constituting the CIU.

**BDX-1.1.5** Once registered, any subsequent material changes to the documents must be notified to the CBB 10 business days prior to execution. An updated copy of the documents must be made available to the CBB within 30 calendar days of executing such changes.

BDX-1.1.6 In the case that any subsequent changes to the documents that are not made in accordance with the requirements stipulated in this Module, the CBB reserves the right to request a reversal of any such change.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-2: Prospectus

## BDX-2.1 General Requirements

**BDX-2.1.1** Every Bahrain domiciled exempt CIU registered under Chapter ARR-4 must publish a prospectus containing, as a minimum, the information set out in Supplementary Information document ARR(ii), in Part B of Volume 7.

**BDX-2.1.2** The board of the Bahrain domiciled exempt CIU, or trustees, as appropriate, must ensure that the information contained in the prospectus:

- (a) Is complete and transparent;
- (b) Is not false, misleading, or unfairly prejudicial to the interests of the CIU participants generally or to the participants of other classes of instruments issued by the CIU; and
- (c) Does not contain any provision that conflicts with any Rule in Volume 7, or other legal or regulatory requirements that apply to the Bahrain domiciled exempt CIU or other relevant persons connected to the CIU.

**BDX-2.1.3** The documents constituting the Bahrain domiciled exempt CIU must form an integral part of the prospectus and must be annexed to it. Alternatively, the prospectus must specify where the documents constituting the Bahrain domiciled exempt CIU may be obtained.

**BDX-2.1.4** The board of the Bahrain domiciled exempt CIU must keep the prospectus up-to-date, such that the information it contains is materially current.

**BDX-2.1.5** The prospectus of a Bahrain domiciled exempt CIUs must clearly display a statement to the fact that the CIU is considered an exempt CIU for the purposes of the CBB's Volume 7 (Collective Investment Undertakings) Rulebook.





MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-2: Prospectus

## BDX-2.1 General Requirements (continued)

### BDX-2.1.6

Once a Bahrain domiciled exempt CIU is registered, prior approval must be obtained from the majority of the CIU participants for any subsequent material changes to the prospectus. An updated copy of the prospectus must be made available to CBB within 30 calendar days of the revision being agreed, and CIU participants must be notified of the changes at least 14 calendar days before they take effect.

BDX-2.1.7 For the purposes of Paragraph BDX-2.1.6:

- (a) Material changes include, but are not limited to:
  - (i) Changes in the relevant persons, except for the placement agent;
  - (ii) A change in legal structure;
  - (iii) A change to the investment strategy; or
  - (iv) A change in fees; and
- (b) The majority of the CIU participants is expected to be not less than two-thirds of the CIU participants in terms of number of participants and number of units held.

### BDX-2.1.8

The Bahrain domiciled exempt CIU must provide a copy of its most recent prospectus free of charge to any existing and potential CIU participants.

### BDX-2.1.9

The Bahrain domiciled exempt CIU must, upon request, provide explanations and such other information supplementary to the prospectus as may reasonably be required by any existing and potential CIU participants.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-3: CIU Holdings

## BDX-3.1 General Requirements

### BDX-3.1.1

If a Bahrain domiciled exempt CIU has different classes of holdings, the documents constituting the CIU must clearly set out:

- (a) The different features of each class of holding, including their respective rights;
- (b) The allocation of expenses and fees; and
- (c) How the proportion of the value of the assets of the CIU and the proportion of income available for allocation attributable to each such class is to be calculated.

### BDX-3.1.2

CIU participants must, in accordance with the CIU documents, either be:

- (a) Issued with registered certificates evidencing title to holdings; or
- (b) Provided with written confirmation of entry in a register for such holdings which shall be kept current and up-to-date at all times and shall contain full details of the names and addresses of the CIU participants, the number of holdings held by them, and the date of acquisition of such holdings.

### BDX-3.1.3

Holdings may only be created, issued or sold, and redeemed, repurchased, reimbursed or repaid (as may be appropriate), in accordance with the prospectus constituting the Bahrain domiciled exempt CIU.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-4: Investments

## BDX-4.1 Risk Management

**BDX-4.1.1** Bahrain domiciled exempt CIUs should operate on the principle of risk management and be diligent in maintaining and implementing investment and risk management policies aimed at the prudent risk control.

**BDX-4.1.2** The prospectus must disclose the investment policies of the Bahrain domiciled exempt CIU.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-4: Investments

## BDX-4.2 Significant Influence / Conflicts of Interest

### BDX-4.2.1

Bahrain domiciled exempt CIUs may only enter into related party transactions provided they are clearly disclosed and permissible in accordance with the initial prospectus.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-4: Investments

### BDX-4.3 Breaches of Investment Limits

#### BDX-4.3.1

The fund manager must abide by the prescribed limits within the prospectus and any breach that occurs must be reported to the CIU participants on a prompt basis.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-5: Lending

## BDX-5.1 General Requirements

**BDX-5.1.1** A Bahrain domiciled exempt CIU must not lend its assets to any relevant person of the CIU.

**BDX-5.1.2** A Bahrain domiciled exempt CIU must not lend its assets, except as otherwise needed in relation to stock lending, for the purposes of meeting margin requirements where the CIU is using financial derivatives, or where it is an incidental part of the investment deals provided for in the investment objective stated in the prospectus of the CIU.



MODULE	BDX:	Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-6:	Fees

## BDX-6.1 General Requirements

BDX-6.1.1	All costs and charges, including fees to <u>relevant persons</u> , payable from the assets of a <u>Bahrain domiciled exempt CIU</u> must be clearly stated and disclosed in the <u>prospectus</u> .
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MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-7: Valuation of Assets

## BDX-7.1 General Requirements

### BDX-7.1.1

The board of directors must ensure an independent, fair and timely valuation of all the CIU's assets, is conducted by appropriately qualified valuers, in line with the prospectus.





MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-8: Books and Records

## BDX-8.1 General Requirements

### BDX-8.1.1

Bahrain domiciled exempt CIUs must prepare, retain for 10 years and make available to the CBB upon request, such records that enable:

- (a) The CIU and its relevant persons, as appropriate, to comply with the rules in this Module; and
- (b) The CIU to demonstrate at any time that such compliance has been achieved.

#### BDX-8.1.2

The records referred to under Rule BDX-8.1.1, include but are not limited to, the minutes of the board of directors' meetings (see Paragraph CG-4.1.1), the prospectus, contractual agreements, documents constituting the CIU and annual audited statements.

### BDX-8.1.3

Bahrain domiciled exempt CIUs must, through the appointed registrar, obtain and safe-keep all signed application forms, along with KYC documents for each CIU participant, in original form or in the form of a certified copy, at the office in Bahrain, in line with applicable laws and regulations.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-9: Financial Statements

## BDX-9.1 General Requirements

**BDX-9.1.1** Bahrain domiciled exempt CIUs must prepare semi-annual (interim) and annual audited financial statements for each financial year.

**BDX-9.1.2** The annual audited financial statements must be prepared in accordance with International Financial Reporting Standards (IFRS) or AAOIFI Standards, as applicable, by a qualified independent external auditor located in Bahrain and acceptable to the CBB. The semi-annual (interim) financial statements must be subject to an independent review by the same auditor.

**BDX-9.1.3** The annual audited financial statements must be disclosed and distributed to CIU participants and submitted to the CBB, within 4 months of the end of the CIU's financial year.

**BDX-9.1.4** The semi-annual (interim) financial statements must be disclosed and distributed to CIU participants and submitted to the CBB, within 2 months of the period end.

**BDX-9.1.5** Both the annual and semi-annual reports must contain as a minimum the information specified in Supplementary Information document CRR(i) of Part B of Volume 7.


**BDX-9.1.6** The annual audited financial statements of the fund company (if applicable) must be submitted to the CBB, within 3 months of the financial year-end of the fund company.



MODULE	BDX: Bahrain Domiciled Exempt CIUs
CHAPTER	BDX-10: Promotion

## BDX-10.1 General Requirements

**BDX-10.1.1** The promotion of Bahrain domiciled exempt CIUs must be limited to accredited investors and no public offering or mass marketing is permitted.

 <b>Central Bank of Bahrain Rulebook</b>	<b>Volume 7 Collective Investment Undertakings</b>
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<b>MODULE</b>	<b>BDX: Bahrain Domiciled Exempt CIUs</b>
<b>CHAPTER</b>	<b>BDX-11: Access to Premises</b>

## **BDX-11.1 General Requirements**

### **BDX-11.1.1**

Relevant persons of Bahrain domiciled exempt CIUs must permit representatives of the CBB, or persons appointed by the CBB to have access, with or without notice, during reasonable business hours to any of their business premises to allow the CBB to carry out inspection or investigation of the CIU at any point of time, in order for the CBB to discharge its regulatory obligations.

<b>MODULE</b>	<b>BDX: Bahrain Domiciled Exempt CIUs</b>
<b>CHAPTER</b>	<b>BDX-12: Mergers and Transfers</b>

## BDX-12.1 General Requirements


**BDX-12.1.1** A Bahrain domiciled exempt CIU must seek prior written approval from the CBB in order to merge with, or else transfer its assets to another Bahrain domiciled exempt CIU.

**BDX-12.1.2** The request for approval above must be supported by the following information:

- (a) The reasons for the proposed merger or transfer;
- (b) The alternatives available to CIU participants (including a right to redeem without charge, or switch into another Bahrain domiciled exempt CIU without charge); and
- (c) The estimated costs of the merger or transfer, and information on who is expected to bear such costs.

**BDX-12.1.3** All CIU participants must be informed, at least 15 business days prior to the intention to merge or transfer to another Bahrain domiciled exempt CIU in order for them to make an informed decision.


**BDX-12.1.4** In all cases, a merger or transfer of a Bahrain domiciled exempt CIU must be in accordance with the instrument constituting the CIU and all other applicable laws.

 <b>Central Bank of Bahrain Rulebook</b>	<b>Volume 7 Collective Investment Undertakings</b>
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<b>MODULE</b>	<b>BDX: Bahrain Domiciled Exempt CIUs</b>
<b>CHAPTER</b>	<b>BDX-13: Suspension of Dealing in CIU Holdings</b>

## **BDX-13.1 Suspension of Dealing**

**BDX-13.1.1** A Bahrain domiciled exempt CIU must notify the CBB and the CIU participants upon the suspension of dealing in the CIU holdings and provide the rationale for such decision.

 <b>Central Bank of Bahrain Rulebook</b>	<b>Volume 7 Collective Investment Undertakings</b>
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<b>MODULE</b>	<b>BDX: Bahrain Domiciled Exempt CIUs</b>
<b>CHAPTER</b>	<b>BDX-13: Suspension of Dealing in CIU Holdings</b>

## **BDX-13.2 Resumption of Dealing**

<b>BDX-13.2.1</b>	A <u>Bahrain domiciled exempt CIU</u> must notify the CBB and the <u>CIU participants</u> upon the resumption of dealing in the CIU <u>holdings</u> and provide the date on which the dealing was resumed.
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