



OG/499/2018  
22<sup>nd</sup> November 2018

**Chief Executive Officer**  
All Banks  
All Financing Companies  
All Insurance Licensees  
All Investment Business Firms (Categories 1 and 2)  
All Fund Administrators  
Manama  
Kingdom of Bahrain

Dear Sir/Madam,

**Directive**  
**Concerning Economic Substance Requirements for certain Financial Institutions**  
**in the Kingdom of Bahrain**

**Article 1**

This Directive is issued in exercise of the Central Bank of Bahrain's ("CBB") powers conferred under Article 38 of the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006, as amended ("CBB Law").

**Article 2**

1. The requirements set out in this Directive are general requirements concerning confirmations and notifications that must be submitted to the CBB on various matters.
2. These requirements are without prejudice to the provisions of the CBB Law and its regulations, resolutions and directives (including the CBB Rulebook) and do not replace or supersede any existing provisions in the aforementioned instruments.
3. Licensees must ensure compliance with all legal and regulatory instruments which provide detailed and specific requirements on the matters referred to in point (1) above.

**Article 3**

1. Applicants for a new License must, as one of the conditions for obtaining a License, submit a written confirmation to the CBB that they will comply with the requirements of this Directive.

2. Licensees must submit a report to the CBB containing the confirmations set out in Article 4 (the "Report") on an annual basis covering the Licensee's financial year. The Report must be submitted to the CBB within three (3) months of the end of the financial year.

#### Article 4

- A. For the purpose of this Directive, Core Income Generating Activities (CIGAs) means those principal functions and activities that drive the business value (rather than exclusively or mostly administrative support activities) and that relate to:
1. for Banking: Deposit-taking, providing credit, accepting Shari'a money placements/deposits, managing Shari'a profit/loss sharing investment accounts, offering Shari'a financing contracts, dealing in financial instruments as principal, dealing in financial instruments as agent, managing financial instruments, safeguarding financial instruments, operating a Collective Investment Undertaking, arranging deals in financial instruments, advising on financial instruments, providing money exchange/remittance services, or issuing/administering means of payment.
  2. for Financing Companies: Offering instalment credit, offering revolving credit facilities (such as credit cards), offering Shari'a financing contracts and issuing/administering means of payment (charge cards, travellers' cheques, electronic purses).
  3. for Insurance Licensees: Carrying out and effecting of insurance contracts as principal by entering into a contract of insurance or contract of reinsurance, as well as providing all insurance related services to clients.
  4. for Investment Business Firms (Category 1): Dealing in financial instruments as principal, dealing in financial instruments as agent, arranging deals in financial instruments, managing financial instruments, safeguarding financial instruments (i.e. a custodian), advising on financial instruments and operating a collective investment undertaking (i.e. an operator).
  5. for Investment Business Firms (Category 2): Dealing in financial instruments as agent, arranging deals in financial instruments, managing financial instruments, safeguarding financial instruments (i.e. a custodian), advising on financial instruments and operating a collective investment undertaking (i.e. an operator).

6. for Fund Administrators: Fund management accounting services, client enquiries, valuation and pricing (including tax returns), regulatory compliance monitoring, maintenance of unit-holder/fund instruments register, distribution of income, Unit issues and redemption of units in CIU and other financial instruments, contracts settlements (including certificate dispatch), general record-keeping, distribution of income.

B. The Report referred to in Article 3(2) above must include the following confirmations (to the extent applicable to the Licensee based on its License category):

1. The Licensee is directed and managed in the Kingdom of Bahrain including confirmation that:

- a) the meetings of the Board of Directors of the Licensee are held at adequate frequencies to enable it to discharge its duties and responsibilities effectively and at least half of all the meetings are held in the Kingdom of Bahrain;
- b) strategic decisions of the Licensee are set out at meetings of the Board of Directors and Board of Directors committees and the minutes of the meetings reflect those decisions; and

2. All Approved Persons (as defined in the CBB Rulebook) of the Licensee possess the necessary knowledge and expertise to discharge their duties and meet the "Fit and Proper" standard as set out in the CBB Rulebook.

3. The Licensee's Core Income Generating Activities ("CIGAs") are undertaken by the Licensee in the Kingdom of Bahrain;

4. The Licensee has, proportionate to the activities of the Licensee,:

- a) (i) an adequate level of key decision makers from the executive management;  
and  
(ii) a sufficient number of qualified employees;

resident in the Kingdom of Bahrain;

- b) an adequate level of financial resources, and as agreed with the CBB;

- c) adequate physical premises in the Kingdom of Bahrain.

5. The Licensee has in place an adequate set of internal policies and controls with respect to its operations, compliance, corporate governance and risk management, and that these policies are reviewed on a regular basis to ensure that they remain appropriate, relevant and in line with any standards set out by the CBB;

6. **The Licensee:**
    - a) maintains adequate and proper books and records including accounting records that meet International Financial Reporting Standards (IFRS) for conventional licensees and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards for Islamic financial services licensees and for products and activities not covered by AAOIFI, International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) are met;
    - b) keeps all books and records (including minutes of meetings of the Board of Directors) in the Kingdom of Bahrain or at any other location as approved by the CBB.
  7. The Licensee's name and CBB license category are clearly indicated on the letterhead, stationery and other documents, websites and social media platforms used by the Licensee.
  8. Where a CIGA is outsourced (if permitted by CBB Rules), the Licensee has complied with all CBB outsourcing rules and requirements as set out in the CBB Rulebook.
  9. The Licensee has obtained the CBB's prior approval with regards to:
    - a) change of Controllers (as defined in the CBB Law and its regulations);
    - b) appointment of directors;
    - c) appointment of its external auditor;
    - d) any change relating to premises of the Licensee within or outside the Kingdom of Bahrain;
    - e) any change to the Licensee's Memorandum of Association or Articles of Association.
  10. The Licensee has, immediately, notified the CBB of the resignation of any Approved Person;
  11. The Licensee is in compliance with the laws of the Kingdom of Bahrain;
  12. The Licensee has obtained all licenses and permissions required to perform its CIGAs.
- C. The Report must also include a statement that the Licensee is in compliance with all relevant legal and regulatory instruments (including CBB Rulebook) with regards to matters set out in Section B above.

**Article 5**

The Licensee must provide any further confirmations as the CBB specifies from time to time.

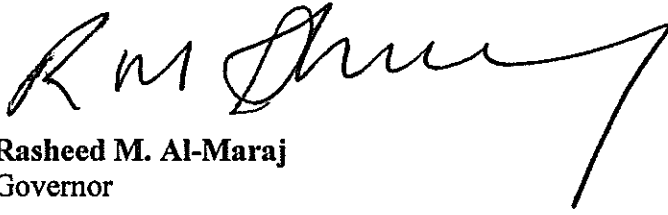
**Article 6**

Failure of a Licensee to comply with any of the provisions of this Directive may result in enforcement action being imposed by the CBB.

**Article 7**

This Directive shall come into effect on the 1<sup>st</sup> January 2019.

Yours faithfully,



**Rasheed M. Al-Maraj**  
Governor

