



AUTHORISATION MODULE



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

AU-1.1 Licensing (continued)

Investment Firm License Categories

AU-1.1.12 For the purposes of Volume 4 (Investment Business), regulated investment services may be undertaken under three categories of investment firms as follows:

Category 1

AU-1.1.13 For the purposes of Volume 4 (Investment Business), Category 1 investment firms may undertake (subject to Rule AU-1.1.19) any regulated investment service, as listed below:

- (a) Dealing in financial instruments as principal;
- (b) Dealing in financial instruments as agent;
- (c) Arranging deals in financial instruments;
- (d) Managing financial instruments;
- (e) Safeguarding financial instruments (i.e. a custodian);
- (f) Advising on financial instruments; and
- (ff) Arranging Credit and Advising on Credit; and**
- (g) Operating a collective investment undertaking (i.e. an operator).

AU-1.1.14 [This Paragraph was moved and amended to Paragraph AU-1.4.11A in January 2012].

Category 2

AU-1.1.15 For the purposes of Volume 4 (Investment Business), Category 2 investment firms may undertake (subject to Rule AU-1.1.19) any regulated investment service (as listed in Rule AU-1.1.13), *except* that of 'dealing in financial instruments as principal'.

AU-1.1.16 A Category 2 investment firm cannot, therefore, trade in financial instruments for its own account ('dealing in financial instruments as principal'), but it may conduct all other types of regulated investment services, including holding client assets.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

AU-1.1 Licensing (continued)

Category 3

AU-1.1.17

For the purposes of Volume 4 (Investment Business), Category 3 investment firms may undertake (subject to Rules AU-1.1.18 and AU-1.1.19) the following regulated investment services only:

- (a) Arranging deals in financial instruments; and
- (b) Advising on financial instruments; and
- (c) Arranging Credit and Advising on Credit.

AU-1.1.18

When undertaking either of the regulated investment services listed under Rule AU-1.1.17, Category 3 investment firms:

- (a) Must be independent;
- (b) May not hold any client assets;
- (c) Must refrain from receiving any fees or commissions from any party other than the client; and
- (d) Must not have an 'agency' relationship (tied agent) with an investment provider.

AU-1.1.18A

In assessing the independence of a Category 3 investment firm, the CBB will take into account the regulated investment services offered in relation to financial instruments of a related party.

AU-1.1.18B

For the purpose of Paragraph AU-1.1.18A, a related party of a Category 3 investment firm includes:

- (a) A controller of the Category 3 investment firm as defined in Module GR;
- (b) A close link of the Category 3 investment firm as defined in Module GR;
- (c) An associate of a controller as defined in Module GR;
- (d) The extended family of a controller including a father, mother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, or grandparent;
- (e) A corporate entity, whether or not licensed or incorporated in Bahrain, where any of the persons identified in Sub-Paragraphs (c) and (d) is a Director or would be considered a controller were the definition of controller set out in Paragraph GR-5.2.1 applied to that corporate entity; and
- (f) (This Subparagraph has been deleted).

Combining Regulated Investment Services

AU-1.1.19

Investment firm licensees may combine two or more regulated investment services, providing these fall within the permitted list of services for their investment firm Category, and such combinations are not restricted by Module BC (Business Conduct).

AU-1.1.20

Module BC (Business Conduct) may restrict licensees from undertaking certain combinations of activities, where such combinations potentially create conflicts of interest that could compromise the interests of customers. See Chapter BC-2.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

AU-1.1 Licensing (continued)

Suitability

AU-1.1.21 [This Paragraph was deleted in January 2011].

AU-1.1.22 [This Paragraph was deleted in January 2011].

AU-1.1.22A As per Article 48 of the CBB Law, Investment Firm licensees must seek CBB's prior written approval before undertaking new regulated investment services.

AU-1.1.22B Investment firm licensees wishing to undertake the activity of Arranging Credit and Advising on Credit must satisfy the CBB that they have sufficient expertise to undertake this activity and must obtain the CBB's prior written approval for undertaking the same.

Conventional and Islamic Investment Firms

AU-1.1.23 Investment firm licensees may deal in both conventional and Islamic financial instruments. Only those investment firm licensees whose operations are fully Shari'a compliant, however, may hold themselves out to be an Islamic investment firm.

AU-1.1.24 Islamic investment firms are required to comply with relevant AAOIFI standards (see Section AA-4.1).

AU-1.1.24A In accordance with Paragraph HC-9.2.1, Category 1 and 2 Islamic investment firms must maintain a Shari'a Supervisory Board, comprised of at least 3 Shari'a board members, to verify that their operations are Shari'a compliant.

AU-1.1.24B Category 3 Islamic investment firms must appoint a minimum of one Shari'a advisor or scholar to verify that their operations are Shari'a compliant.

AU-1.1.25 Investment firm licensees (whether conventional or Islamic) may not accept Shari'a money placements or deposits. They may not enter into Shari'a financing contracts (except where it is an incidental part of assisting a client to buy, sell, subscribe for or underwrite a financial instrument). Finally, they may not offer Shari'a Profit Sharing Investment Accounts (whether restricted or unrestricted).



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

AU-1.4 Definition of Regulated Investment Services (continued)

Advising on Financial Instruments

AU-1.4.41

Advising on financial instruments means giving advice to an investor or potential investor (or a person in his capacity as an agent for an investor or potential investor) on the merits of buying, selling, subscribing for or underwriting a particular financial instrument or exercising any right conferred by such a financial instrument.

AU-1.4.41A

For the purpose of Rule AU-1.4.41, advising on financial instruments includes giving digital financial advice also known as ‘robo-advice’ or ‘automated advice’ using a computer program and algorithm to generate the advice.

AU-1.4.42

The activity defined in Rule AU-1.4.41 above does not include advising on mergers and acquisitions, unless otherwise agreed with the CBB on a case by case basis.

AU-1.4.43

~~The activity defined in Rules AU-1.4.41 above does not include advising on corporate finance. [This Paragraph has been deleted in December 2019].~~

AU-1.4.44

The following are examples of activities, which may be regarded as an activity as defined by Rule AU-1.4.41:

- (a) A person may offer to tell a client when shares reach a certain value on the basis that when the price reaches that value it would be a good time to buy or sell them;
- (b) Recommendation on the size or timing of transactions; and
- (c) Advice on the suitability of the financial instrument, or on the characteristics or performance of the financial instrument or credit facility concerned.

AU-1.4.45

A person does not carry on an activity specified in Rule AU-1.4.41 by giving advice in any newspaper, journal, magazine, broadcast services or similar service in any medium if the principal purpose of the publication or service, taken as a whole, is neither:

- (a) That of giving advice of the kind mentioned in Rule AU-1.4.41; nor
- (b) That of leading or enabling persons to buy, sell, subscribe for or underwrite a financial instrument.



MODULE	AU: Authorisation
CHAPTER	AU-1: Authorisation Requirements

AU-1.4 Definition of Regulated Investment Services (continued)

AU-1.4.47 A person undertaking an activity of the kind specified under Rule AU-1.4.41 cannot accept or hold client assets or execute negotiable instruments such as cheques on behalf of a client.

Arranging Credit and Advising on Credit

AU-1.4.47A **Arranging Credit means making arrangements for a borrower, to enter into a credit facility with a credit provider.**

AU-1.4.47B **An Investment Firm Licensee may only arrange for, or advise on credit facilities with a credit provider licensed to provide such facilities.**

AU-1.4.47C Activities that constitute Arranging Credit includes:

- (a) Introducing potential borrowers to a credit provider (refer to Rule AU-1.4.47B);
- (b) Providing the required assistance to potential borrowers to obtain credit, such as the completion of application forms and other processes relevant to such transactions;
- (c) Negotiating terms of credit, including fees and charges;
- (d) Arranging for collaterals or other types of assurances required to be provided by the potential borrower to obtain credit; and
- (e) Arranging for corporate structuring and financing such as the acquisition, disposal, structuring, restructuring, financing or refinancing of a legal entity.

AU-1. 4.47D **Advising on Credit means giving advice to a borrower, a potential borrower, or a person in his capacity as an agent of a borrower or a potential borrower, on the merits of entering into a particular credit facility.**

AU-1.4.47E For the purposes of Rules AU-1.4.47A to AU-1.4.47D, a borrower is:

- (a) A natural person who is an accredited investor; or
- (b) A legal person, and the credit facility in question is provided for use in the business activities of:
 - (i) the legal person;
 - (ii) a controller of the legal person;
 - (iii) any member of the Group to which the legal person belongs; or
 - (iv) a joint venture of a legal person referred to in (i) – (iii).