

**Consultation: Proposed Amendments to Module AU – Volume 4**  
**Industry Comments and Feedback**  
**December 2019**

<b>General Comments:</b>		
<b>Comments</b>	<b>REF</b>	<b>CBB Response</b>
<p><b>A Licensee</b>  Please clarify whether there is an intention to include a definition for the term 'Credit Facility' and please confirm whether credit cards (provided by a credit provider) falls within the scope of the definition of a 'Credit Facility'.</p>	GR1	The term “credit facility” is defined in CBB Rulebook Volumes 1 and 2. Despite that, there is no need to have a definition for credit facility in Volume 4, because loans would have different structures and purposes and types, and new type of structures keep coming up.

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<b>Specific Comments:</b>			
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<p>Category 1  <b>AU-1.1.13</b> 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).</p>	<p><b>A Licensee</b>            Is the intention to allow category 1, 2 and 3 Investment Business Firms licensed by CBB in Bahrain to arrange and advise on loans that:            - Have no connection to financial instruments or investing activities?            - May be provided by a credit provider located in a foreign jurisdiction?</p>	SP1	<ul style="list-style-type: none"> <li>• Please refer to Paragraphs AU-1.4.47A to AU-1.4.47E, which clearly explain the activities constituting arranging credit and advising on credit. Category 1, 2 and 3 may advise on loans that have no connection to financial instruments or investing activities.</li> <li>• Paragraph AU-1.4.47B mentions that the advice on credit may be provided by a licensed credit provider and did not mention licensed by the CBB. It may therefore be provided by a credit provider located in a foreign jurisdiction. However, CBB prior written approval must be obtained for undertaking such activity as mentioned in Paragraph AU-1.1.22B.</li> </ul>
<p><b>AU-1.1.22A</b> As per Article 48 of the CBB Law, Investment Firm licensees must seek CBB’s prior written approval before undertaking new regulated investment services.</p>	<p><b>A Licensee</b>            We suggest amending as follows:  <b>AU-1.1.22A:</b> As per Article 48 of the CBB Law, Investment Firm licensees must seek CBB’s prior written approval before undertaking new <u>regulated investment services</u> not previously included as a</p>	SP2	<p>Disagree. The rules are clear. If an investment firm licensee is willing to undertake a new regulated investment service, which was not previously in its license, CBB prior written approval must be obtained as mentioned in the AU-1.1.22A.</p>

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	regulated investment service in the Investment Firm's license.		
<b>AU-1.1.22B</b> 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.	<b>A Licensee</b> Will the CBB issue specific guidelines on what is considered "sufficient expertise"? From our perspective Investment Advisors, registered as Approved Persons with the CBB, have the required expertise to undertake the said arranging credit and advising on credit activities. Kindly clarify if our understanding is correct.	SP3	Sufficient expertise would be as required in Appendix TC-1. Correct. Investment advisors can undertake this activity.  A new rule will be added as follows:  <b>AU-1.1.22C</b> For purposes of Paragraph AU-1.1.22B, investment firm licensees must ensure that the officer responsible for dealing with the customers for arranging credit and advising on credit is competent and has demonstrated his competence through appropriate qualifications and experience to carry out such function.
	<b>A Licensee</b> Paragraphs AU-1.1.22A and AU-1.1.22B should be removed: Article 48 of the law is relevant to amendments of a specific license but if the category 1 license will now include the activity of arranging credit and advising on credit, then why would firms need to seek CBB approval on it?	SP4	Existing licensees are required to obtain CBB prior approval for any new regulated investment services not selected while submitting Form 1.

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AU-1.4.47A Arranging Credit means making arrangements for a borrower, to enter into a credit facility with a credit provider.	<b>A Licensee</b> As a branch of a European bank, we would propose arranging credit facilities that are provided by our head office or another group entity located in a foreign jurisdiction that is duly licensed by their respective home regulator to conduct banking activities including provision of credit. Will this meet the respective requirements?	SP5	See second bullet in SP1.
	<b>A Licensee</b> Clarification is sought as to whether ‘Credit facility’ includes bonds, sukuk, Ijarah, Murabaha, structured debt facilities, debt securitization, or other debt instruments.	SP6	Bonds and sukuk are marketable instruments, and are classified as financial instruments. Other Islamic contracts that are purely used as lending contracts are included.
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.	<b>A Licensee</b> As noted above, the respective credit provider i.e. a European bank or another group entity is located in a foreign jurisdiction and licensed by their home regulator to provide credit facilities. Will this meet the respective requirements?	SP7	See second bullet in SP1.
	<b>A Licensee</b> Then AU-1.4.47E (a) should not limit the natural person to an accredited investor so long as the credit provider’s license permit.	SP8	Disagree. When such regulated service is provided to a natural person, the natural person should be an accredited investor.
	<b>A Licensee</b> Please clarify whether the 'Credit Provider' referred to in AU-1.4.47B should be located in the Kingdom of Bahrain or in an overseas jurisdiction.	SP9	See second bullet in SP1.

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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.	<b>A Licensee</b> Does arranging for mortgages fall under the mentioned activities?	SP10	Yes. Mortgages are included under the mentioned activities.
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).	<b>A Licensee</b> While this may not directly impact retail banking services/operations, our only feedback is on the below highlighted part of the Authorization module which defines a borrower who may get credit advice from the investment firm. Clarity is required on what defines an “accredited” investor and on whether retail-banking individuals can be eligible for such service (credit advisory) from investment firms and furthermore on what is expected <u>from the creditor</u> in such dealings with the investment firm as the module covers more on the requirements on investment firms.	SP11	The CBB Rulebook defines Accredited Investors as those who are: (a) Individuals who have a minimum networth of (or joint networth with their spouse) of USD 1 million, excluding that person’s principle place of business; (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1 million; or (c) Governments, supranational organisations, central banks, or other

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			<p>national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).</p> <p>Retail clients are not eligible for such service from investment firms.</p> <p>AU-1.4.47E will be changed to a rule and will be amended as follows:</p> <p>AU-1.4.47E For the purposes of Paragraphs AU-1.4.47A to AU-1.4.47D, a borrower is:</p> <p>(a) A natural person who is an accredited investor; or</p> <p>(b) A legal person who is an accredited investor or expert investor, and the credit facility in question is provided for use in the business activities of:</p> <p>(i) the legal person;</p> <p>(ii) a controller of the legal person;</p>

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			<p>(iii) any member of the group to which the legal person belongs; or</p> <p>(iv) a joint venture of a legal person referred to in (i) – (iii).</p> <p>In addition, a new rule AU-1.4.47F will be added as follows:</p> <p>AU-1.4.47F For purposes of Subparagraph AU-1.4.47E (a), investment firm licensees are prohibited from dealing with retail clients and/or expert investors.</p>