



**COLLECTIVE INVESTMENT  
UNDERTAKINGS  
MODULE**

CONSULTATION

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<b>CHAPTER</b>	<b>CIU-A Introduction</b>

## 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. This module is not applicable to structured products, investment structures or assets under management not constituted as CIUs.

**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 parties mentioned throughout this Module.

**CIU-A.1.3** CIUs are defined as undertakings the sole object of which is the collective investment of capital raised from the investors and which operates on the basis of risk-spreading. The definition of CIUs includes closed-ended funds as well as open-ended funds.

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

- (a) A contract of insurance, insurance linked investment products or investments managed as part of a takaful contract of insurance;
- (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;
- (e) Pension, annuity and other employee benefit products, organised and managed for the benefit of employees or for another corporate body, which are governed by separate laws of the Kingdom of Bahrain;
- (f) Structured products;
- (g) Cash savings schemes;
- (h) Equity based and financing based crowdfunding offers;
- (i) Securities issuance Special Purpose Vehicles including sukuk; and
- (j) The issue of securities by companies whether publicly or by private placements for the purpose of raising their own capital.

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### CIU-A.1 Scope and Purpose (continued)

CIU-A.1.5 Bahrain domiciled CIUs may take various legal forms as follows:

- (a) Bahraini Shareholding Company(c) established under the Bahrain Commercial Companies Law;
- (b) Trusts, established under the Financial Trusts Law;
- (c) Protected Cells Company established pursuant to Legislative Decree No 22 of 2016 in respect to Protected Cells Companies;
- (d) Common CIUs, established under the law of contract; or
- (e) Investment Limited Partnership established pursuant to Law No. (18) of 2016 in Respect to Investment Limited Partnerships.

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) on the other hand, may only be offered Ultra High Net-Worth Investors.

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

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

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## CIU-A.2 General Requirements

### CIU-A.2.1

The operators of CIUs, or where relevant, the placement agents marketing CIUs in the Kingdom of Bahrain must comply with the following:

- (a) Ensure that a CIU is marketed by qualified individuals who are able to clearly explain to investors the risks and rewards associated with investing in the CIU, in a manner that is clear, fair and not misleading;
- (b) Ensure investors are eligible to invest in the CIU being offered to them;
- (c) Ensure advertisements concerning CIUs do not contain inaccurate, false or misleading statements and do not detract the investors' ability to make their own judgment about investing in the CIU;
- (d) Ensure that investors submit a declaration stating that they have read the offering documents, understand the investment objectives and are familiar with associated risks;
- (e) Distribute to investors the periodic reports specified in the offering documents in a timely manner;
- (f) Address any client complaints and/or enquiries and to provide any information as may be reasonably required by existing or potential investors; and
- (g) Comply at all times with the laws of the Kingdom of Bahrain and the regulations of the CBB, including those related to AML/CFT.

### CIU-A.2.2

The operators, or where relevant, the placement agents of specialised CIUs, e.g. Real Estate Investment Trusts (REITs), Venture Capital CIUs, Shari'a Compliant CIUs, Hedge Funds, Money Market Funds and Exchange Traded Funds (ETFs) must ensure that the CIU's investment objectives and operations reflect the substance of the specialist nature of the CIU. The operator, or where relevant, the placement agent must demonstrate to the CBB that sufficient proportion of the underlying assets represent the asset class attributable to the investment objectives and strategy of the CIU. In the case of ETFs, the listing process must be in accordance with the listing rules of the licensed exchange.

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<b>CHAPTER</b>	<b>CIU-1 Bahrain Domiciled CIUs</b>

## CIU-1.1 Authorisation and Registration Process

**CIU-1.1.1** All Bahrain domiciled retail CIUs must be authorised by the CBB prior to being offered to investors (whether resident in the Kingdom of Bahrain or outside). All Bahrain domiciled exempt CIUs must be registered with the CBB prior to being offered to investors (whether resident in the Kingdom of Bahrain or outside).

**CIU-1.1.2** The CIU operator must submit the CIU Application Form (Part B of Volume 7) for authorisation/registration to the CBB together with a certification from the proposed third-party fund administrator, custodian, legal representative or the external auditor of the fund.

CIU-1.1.3 All applications 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/registration, 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-1.1.2 should confirm among other things, completeness of documentation, compliance with CIU Module and CBB Rulebook requirements applicable to the operator and the relevant parties of the CIU.

**CIU-1.1.4** In case a duly authorised/registered CIU does not deploy funds raised in accordance with the investment objectives within 6 months from the date of its authorisation/registration, 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 all subscription fees charged.

**CIU-1.1.5** In respect of Bahrain domiciled CIUs established solely for distribution to governments, sovereign and public sector entities, licensed banks, insurance companies, exchanges and investment firms, the operators are only required to notify the CBB of its launch and to submit the Quarterly Statistical Return (Form CIU-QS, Part B of Volume 7) within 30 days of each quarter end.

CIU-1.1.6 For Bahrain domiciled CIUs referred to in Paragraph CIU-1.1.5, the role of the CBB is limited to obtaining statistical information for the purpose of monitoring developments in the financial sector. Such CIUs are not subject to any other provisions of the CBB Rulebook and are not subject to CBB's on-going supervision.

### *Fees Payable to the CBB*

**CIU-1.1.7** Each application made under Paragraph CIU-1.1.1 must be accompanied by a BD 100 processing fee. This fee is non-refundable. Each Bahrain domiciled CIU is subject to an annual fee of BD 2,000.

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## CIU-1.2 Disclosure Requirements

### *Constituent Documents*

#### CIU-1.2.1

Bahrain domiciled CIUs must be constituted by way of documents in accordance with the legal vehicle of the CIU. The constituent documents must include the following information at a minimum:

- (a) Name and legal form of the CIU;
- (b) Name of the operator;
- (c) The governing law of the CIU;
- (d) The objective of investment vehicle;
- (e) Rules regarding the organisational and operational framework of the CIU, including provisions on the manner in which meetings are to be conducted, and interests of CIU participants protected;
- (f) The date on which the annual accounting period ends;
- (g) A statement of terms and circumstances in which the CIU may be wound up, merged with other CIUs, suspended or otherwise terminated.

#### CIU-1.2.2

The Constituent documents referred to in Paragraph CIU-1.2.1 would be in accordance with legal vehicle used for the CIU i.e. memorandum and articles of association if the CIU is constituted as a Bahrain Shareholding Company (BSC) or a Protected Cell Company (PCC), a trust deed if the CIU is constituted as a Trust, or partnership agreement if the CIU is constituted as an Investment Limited Partnership.

#### CIU-1.2.3

The operator must notify the CBB and the CIU participants for any changes to the constituent documents of the CIU for information referred to in Paragraph CIU-1.2.1.

### *Offering Documents*

#### CIU-1.2.4

The offering documents of a Bahrain domiciled CIU, whether in the form of a prospectus or information memorandum, must include the information, in an easy to understand format and language, necessary for investors to be able to make an informed judgement of the investment proposed to them and the relevant risks. The constituent documents must be either attached to the offering documents or alternatively, the offering documents must specify how the investor may obtain the constituent documents.

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## CIU-1.2 Disclosure Requirements (continued)

### CIU-1.2.5

The offering documents of a Bahrain domiciled CIU 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;
- (c) Description of rules for determining and applying income benefits, and potential rewards;
- (d) The risks associated with investing in the CIU;
- (e) Targeted customers by reference to CBB client classification (See Section BC-2.2)
- (f) 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;
- (g) Information concerning the manner, amount and calculation of remuneration payable by CIU to the operator, the custodian or other third parties;
- (h) 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;
- (i) Classes of units and, if any rights of any class of units differ, a statement describing those differences in relation to the differing classes;
- (j) 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;
- (k) The date of issue of the offering documents;
- (l) Accounting and distribution frequency of periodic reports, including audited annual reports to investors;



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## CIU-1.2 Disclosure Requirements (continued)

- (m) How a CIU participant can obtain any detailed information about the CIU (such information must be provided free of charge);
- (n) Key details including contact information about the CIU operator and other relevant parties 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;
- (o) Financial information of the CIU including historic information (if any);
- (p) Expected performance of the CIU over various time periods, compared to established and consistent benchmarks (if applicable);
- (q) The key operating rules of the CIU, including the key CIU participants' rights such as ability to purchase and redemption rights;
- (r) Information concerning any advisory firms appointed to advise the CIU and material provisions of the contract with operator which may be relevant to the CIU participants; and
- (s) Any AML/CFT procedures including any documents and information required from the CIU participants.

CIU-1.2.6 The offering documents should refer to the applicable law of the CIU, which may be the laws of the Kingdom of Bahrain or an international jurisdiction.

**CIU-1.2.7** The offering documents of Bahrain domiciled CIUs must provide the procedures for changes to the offering documents and any related notification or approval of CIU participants. The CBB must be notified for any changes to offering documents which require approval of CIU participants as per the terms of the offering documents.

### *Periodic Reports*

**CIU-1.2.8** Operators of retail CIUs must distribute an annual report within 4 months of the year-end and a semi-annual report within 2 months of the year-end. Operators of exempt CIUs are required to distribute an annual report within 4 months of the year-end. The accounting information given in the annual report must be audited.

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## CIU-1.2 Disclosure Requirements (continued)

### CIU-1.2.9

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

- (a) 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;
- (b) Details of the investment portfolio classified in accordance with the criteria specified in the investment policy, their proportion to the net asset value of the CIU, number of units, and NAV per unit;
- (c) The amount of fees, charges and remuneration paid to the operator and to other third parties (such as custodian and fund administrator) with appropriate breakdowns including any performance fee or carried interest where relevant;
- (d) 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;
- (e) A comparative table covering the last 3 financial years 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;
- (f) Transactions and arrangements with connected parties;
- (g) The Shari'a advisor report for Shari'a-compliant CIUs; and
- (h) All significant information which will enable investors to make an informed judgement on the development of the activities, performance and the results of the CIU.

### CIU-1.2.10

The semi-annual reports must at least include the information required under Sub-paragraphs CIU-1.2.9 (a) to CIU-1.2.9 (c).

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## CIU-1.2 Disclosure Requirements (continued)

### *CBB Reporting*

#### CIU-1.2.11

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

- (a) Any periodic reports provided to the investors 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 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 parties 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-1.3 Governance and Risk Requirements

#### *Governance Arrangements*

**CIU-1.3.1** The operator of the CIU is ultimately held accountable for conducting the business diligently and for the governance, internal controls, operations and compliance arrangements in relation to the CIU. The operator must ensure that the delegated roles (if any) comply with the CBB requirements and meet the objectives of the CIU as specified in the constituent documents and offering documents.

**CIU-1.3.2** The CIU operator must take due care and perform due diligence in the selection of investments in the best interests of the CIU participants. It must establish appropriate risk identification, monitoring and management measures, based on, among other things, the size, the complexity and the risk profile of the CIU. The CIU operator must also ensure that it has in place adequate risk management processes to manage liquidity risk taking into account normal and stressed market conditions.

**CIU-1.3.3** The operator of Bahrain domiciled CIU 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 acceptable to the CBB. A Bahrain based placement agent must be appointed by the overseas operator/fund manager if the CIU is marketed in the Kingdom of Bahrain.

CIU-1.3.4 For the purposes of Paragraph CIU-1.3.3, the operator of 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 the investment management. In all such circumstances, the accountability and responsibility of CIU operator envisaged in this Module remain unchanged.

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### CIU-1.3 Governance and Risk Requirements (continued)

#### CIU-1.3.5

The operators of Bahrain domiciled retail CIUs must appoint:

- (a) An independent custodian mandated to safeguard financial instruments on account of the CIU. The custodian must be a CBB licensed entity authorised to carry out custody services;
- (b) An independent fund administrator mandated to perform fund administration activities for the CIU. The fund administrator must be a CBB licensed entity authorised to carry out fund administration services; and
- (c) An independent Bahrain-based external auditor to perform an annual audit of the CIU.

CIU-1.3.6 For the purposes Subparagraph CIU-1.3.5, for closed-ended Bahrain domiciled retail CIUs the custodian is not required to hold custody of the CIU assets, and its role is limited to verifying the ownership of the CIU assets and maintaining up to date records of the assets.

#### CIU-1.3.7

The operators of Bahrain domiciled exempt CIUs are required to comply with the following:

- (a) An independent custodian mandated to safeguard financial instruments on account of the CIU must be appointed for open-ended CIUs. The custodian must be a CBB licensed entity authorised to carry out custody services;
- (b) The fund administration activity must be carried out in the Kingdom of Bahrain either by the operator or delegated to a custodian authorised to provide fund administration services or an independent third-party fund administrator; and
- (c) An independent Bahrain-based external auditor to perform an annual audit of the CIU.

CIU-1.3.8 For the purposes Subparagraph CIU-1.3.7, for closed-ended Bahrain domiciled exempt CIUs, there is no obligation to appoint a custodian. However, the offering documents should include the arrangements for safeguarding of CIU assets. This service may be carried out by the CIU operator provided it has the authorisation to carry out custody services.

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### CIU-1.3 Governance and Risk Requirements (continued)

CIU-1.3.9 For the purposes of Paragraph CIU-1.3.7, 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-1.3.10 The CIU operator may not delegate its own role to a third party, however, it may appoint another entity to act as investment manager of the CIU, provided there are no conflicts of interests. 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 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 investors;
- (d) In case of retail CIUs, the investment managers must be authorised to undertake asset management whether in the Kingdom of Bahrain or in overseas jurisdictions;
- (e) The investment manager must not be the custodian, fund administrator or any other entity whose interests may conflict with those of the operator or the CIU participants; and
- (f) The CIU's offering documents, where relevant, must disclose the procedures for notifications to or approval by investors for appointments of third-party investment managers.

#### *Custody*

CIU-1.3.11 Custody activities involve safeguarding the assets of the CIU and include the following:

- (a) To open, maintain, and control CIU subscription and trading cash accounts with licensed banks 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-1.3 Governance and Risk Requirements (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 all 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-1.3.12

Fund administration activities include the following:

- (a) Fund accounting (including tax returns) and record keeping services for the CIU;
- (b) Preparation of semi-annual and annual accounts for the CIU;
- (c) Calculation of dividends, service providers' fees, performance fees (if any), and other distributions;



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### CIU-1.3 Governance and Risk Requirements (continued)

- (d) 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;
- (e) Valuation, pricing and calculation of NAV;
- (f) 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
- (g) Handling of client enquiries.

#### *Investment and Risk Management*

CIU-1.3.13

The operator must implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each CIU investment strategy and to which each CIU is or may be exposed. In this respect, the operator must separate the functions of risk management from the operating units, including from the functions of portfolio management. The risk management policies and procedures must be documented and consistently applied.

CIU-1.3.14

The operator must adhere to the investment strategies and risk limits disclosed in the offering documents and agreed with the CIU participants.

#### *Valuation*

CIU-1.3.15

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 investors;



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### CIU-1.3 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 that result in a material harm to CIU participants are addressed promptly, and investors 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-1.3.16** 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.

**CIU-1.3.17** 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-1.3 Governance and Risk Requirements (continued)

#### *Managing Conflicts of Interests*

CIU-1.3.18

CIU operators must take all reasonable steps to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the CIU participants. In particular, 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. by using Chinese walls);
- (b) Clearly disclose the general nature or sources of conflicts of interest to the investors 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 investors; and
- (d) Develop appropriate policies and procedures to manage conflicts of interest internally and with third parties such as the custodian and fund administrator and make the policy available to investors.

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-1 Bahrain Domiciled CIUs</b>

## CIU-1.4 Specific Conditions for Retail CIUs

### *Investments*

#### CIU-1.4.1

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

- (a) Securities traded on the capital market:
  - 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 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 like treasury bonds and sukuk;
- (d) Units of other Bahrain domiciled 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 like 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;

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<b>CHAPTER</b>	<b>CIU-1 Bahrain Domiciled CIUs</b>

#### CIU-1.4 Specific Conditions for Retail CIUs (continued)

##### *Restrictions*

##### CIU-1.4.2

The principal focus of retail CIUs is portfolio diversification and liquidity and as such the investments of a Bahrain domiciled retail CIU must adhere to the following limits:

- (a) The “5/10/40” rule requiring that no more than 10% of a retail CIU’s net assets may be invested in transferable securities or money market instruments issued by the same body, with a further aggregate limitation of 40% of net assets on exposures of greater than 5% to single issuers;
- (b) Up to 100% of net assets can be invested in other CIUs, provided no more than 20% is invested in any one CIU, with an aggregate restriction of 30% of net assets applying to investment in exempt CIUs and limiting investment to a maximum of 25% of the units of a CIU;
- (c) No more than 20% of net assets can be invested in cash deposits with any one bank;
- (d) The maximum exposure to a single OTC derivative counterparty is 5%, unless it is a bank in which case the maximum exposure is 10%; and
- (e) The maximum aggregate exposure to securities/instruments (other than CIUs, derivatives and cash) not listed or traded on a recognised market is 10% of net assets.

##### CIU-1.4.3

A Bahrain domiciled retail CIU may borrow up to 10% of its net assets value provided such borrowing is on a temporary basis. The underlying assets can be charged as security for such borrowings.

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-2 Private Investment Undertakings</b>

## 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 acceptable to the CBB. A Bahrain based placement agent must be appointed by the overseas operator/fund manager if the PIU is marketed in the Kingdom of Bahrain.

### 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 Application Form (Part B of Volume 7) for notifying the CBB of its launch.

### CIU-2.1.4

The operator of the PIU must establish a structure for the PIU which ensures adequate safeguards for the investors with regards to governance, investment management, custody arrangements, administration and disclosures of the PIU.

### CIU-2.1.5

The operator of PIU, or where relevant, the placement agent 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' and as such are not subject to the CBB requirements applicable to CIUs offered to retail or accredited investors and the PIU is not subject to the CBB's on-going supervision;
- (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 CIU 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

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<b>CHAPTER</b>	<b>CIU-2 Private Investment Undertakings</b>

### 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 PIU, or where relevant, the placement agent 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.

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-3 Overseas Domiciled CIUs</b>

### CIU-3.1 General Requirements

**CIU-3.1.1** All overseas domiciled retail CIUs must be registered with the CBB prior to being offered to investors in the Kingdom of Bahrain. Overseas domiciled exempt CIUs are only subject to a notification requirement prior to being offered to investors in the Kingdom of Bahrain. The placement agent of the CIU must submit the CIU Application Form (Part B of Volume 7) for registration or notification to the CBB as the case maybe.

**CIU-3.1.2** In respect of overseas domiciled CIUs, solely distributed to governments, sovereign and public sector entities, licensed banks, insurance companies, exchanges and investment firms, the placement agents are only required to notify the CBB of CIU launch and to submit the Quarterly Statistical Return (Form CIU-QS, Part B of Volume 7) within 30 days of each quarter end.

CIU-3.1.3 For overseas domiciled CIUs referred to in Paragraph CIU-3.1.2, the role of the CBB is limited to obtaining statistical information for the purpose of monitoring developments in the financial sector. Such CIUs are not subject to any other provisions of the CBB Rulebook and are not subject to CBB's on-going supervision.

CIU-3.1.4 All applications for registration 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 registration, or instruct a CIU operator or its placement agent to stop offering/marketing a CIU if the CBB believes it necessary in order to safeguard the interests of potential investors.

**CIU-3.1.5** Overseas domiciled CIUs must only be distributed by placement agents who hold an appropriate license from the CBB 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. Placement agents act as the agent on behalf of the CIU for the purposes of marketing, offering, placing the units of the CIU and for compliance with the relevant requirements of the CBB Rulebook. The agreement appointing the placement agent must be signed between the placement agent and the operator of the overseas domiciled CIU.

**CIU-3.1.6** An Overseas domiciled CIU and its operator must be domiciled in a reputable jurisdiction acceptable to the CBB.

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-3 Overseas Domiciled Funds</b>

### CIU-3.1 General Requirements (Continued)

**CIU-3.1.7** For overseas domiciled retail CIUs the following requirements apply:

- (a) The operator of the CIU must be regulated in the jurisdiction of its principal place of business;
- (b) Laws and practices of the jurisdiction in which the CIU is constituted afford to investors in the Kingdom of Bahrain safeguards at least equivalent to that provided by CBB's regulatory framework; and
- (c) The provisions contained in the constituent and offering documents, the investment policy of the CIU, and roles, responsibilities and compliance obligation of the operator provide adequate safeguard to investors in the Kingdom of Bahrain.

CIU-3.1.8 For the purposes of Paragraph CIU-3.1.7, overseas domiciled retail CIUs that comply with reputable regulatory regimes such as UCITS and AIFMD in EU, will be subject to simplified and fast track registration process.

**CIU-3.1.9** The placement agent of an overseas domiciled CIU, must give at least one month's written notice to CIU participants and to the CBB of its intention to deregister or to cease marketing and operations of the CIU. Subsequently the placement agent must confirm to the CBB that there are no obligations outstanding to any CIU participant.

**CIU-3.1.10** The placement agent must disclose to potential investors that overseas domiciled exempt CIUs are not subject to ongoing supervision of the CBB.



<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-4 Mergers and Transfers</b>

## 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 must be notified of any proposed merger of overseas domiciled CIUs or transfer of its assets to another CIU, along with the approval of the home jurisdiction regulator where applicable.

### 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;

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-4 Mergers and Transfers</b>

#### 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, 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 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.

<b>MODULE</b>	<b>CIU: Collective Investment Undertakings</b>
<b>CHAPTER</b>	<b>CIU-5 Winding-up Process</b>

## 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. The request must be supported by a Board Resolution of the operator ratifying the decision.

**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 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 is being liquidated, prior CBB approval must be obtained.