



# **FAMILY OFFICES MODULE**

CONSULTATION



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MODULE	FO:	Family Offices
CHAPTER	FO-A:	Introduction

## FO-A.1 Purpose

FO-A.1.1 This Module sets out the Central Bank of Bahrain's (CBB) regulations for family office licensees wishing to offer family office services in or from the Kingdom of Bahrain.

FO-A.1.2 For the purposes of CBB Rulebook, family office licensees are wealth management and advisory firms that offer customised services to wealthy families. In addition, a family office licensee may undertake services that are incidental and aligned to the lifestyle of the families, e.g. bookkeeping and administrative services, payments for a variety of family member needs including school fees, tax management and legal advice, estate planning, philanthropy etc.

### *Legal Basis*

**FO-A.1.3** This Module contains the Central Bank of Bahrain's ('CBB') Directive (as amended from time to time) applicable to family office licensees 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).

FO-A.1.4 Family office licensees are subject to the provisions of this Module and the following modules of CBB Rulebook Volume 4:

- (a) Principles of Business Module (PB Module);
- (b) Financial Crime Module (FC Module);
- (c) Enforcement Module (EN Module).

In addition, licensees are also required to comply with any specific requirements of the CBB Rulebook referred to in this Module.



MODULE	FO:	Family Offices
CHAPTER	FO-3:	Licensing

## FO-1.1 Licensing

**FO-1.1.1** Family office services for the purposes of the family office license are one or more of the following regulated investment services:

- (a) Wealth management advice;
- (b) Investment management;
- (c) Arranging credit and advising on credit;
- (d) Safeguarding financial instruments (i.e. a custodian);
- (e) Regulated administration services;
- (f) Trust services;
- (g) Operating a collective investment undertaking (i.e. an operator); and
- (h) Offering of insurance advice (insurance consultant).

**FO-1.1.2** Family office licensees must only provide services to families and entities owned by the family and/or its members and must not deal with retail clients.

**FO-1.1.3** The family office licensee may take any of the legal forms below:  
(a) Bahraini Shareholding Company (B.S.C.) or a legal form under the Bahrain Commercial Companies Law acceptable to the CBB; or  
(b) A branch resident in Bahrain of an overseas investment firm.

**FO-1.1.4** Family office licensee must maintain a capital commensurate with the nature and size of activities which must be higher than the fixed overhead expenses of the preceding year. They must also maintain adequate liquid funds to ensure payment of operational expenses as and when they are incurred and fall due.

FO-1.1.5 For the purposes of Paragraph FO-1.1.4, the applicants for family office licensees should justify to the CBB the level of financial resources being considered as capital to support its activities. Licensees in their first year of operation should use the estimated forecasted fixed overhead expenses as per the business plan submitted to the CBB at the time of obtaining the CBB license. The capital level should also take into account any potential unplanned expenditure that may arise.

**FO-1.1.6** Family office licensee holding proprietary (on balance sheet) positions in financial instruments, securities or other assets must calculate additional risk-based capital requirement applicable to Category 1 and 2 investment firms in accordance with Module CA.



MODULE	FO: Family Offices
CHAPTER	FO-3: Licensing

## FO-1.1 Licensing (Continued)

### FO-1.1.7

Applicants for family office licensee must fill in the application for authorisation online, available on the CBB website under E-services/online Forms. The applicant must also upload PDF copies/scanned copies of the following supporting documents which must be either in English or in Arabic (any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof):

- (a) A comprehensive business plan for the application (see in Appendix 1);
- (b) Details of the proposed licensee's ownership and management structure;
- (c) Board resolution of the applicant on its decision to seek a CBB license (only applicable for existing companies);
- (d) Applicant's memorandum and articles of association (in draft form for applicants creating a new company); and
- (e) Where the applicant is an existing company, the applicant's commercial registration certificate or equivalent in the case of an overseas company and copies of the latest audited financial statements of the applicant (where available).

### FO-1.1.8

The CBB, at its complete discretion may ask for a guarantee from the applicant's controlling or major shareholders on a case by case basis as it deems appropriate/necessary as part of the required documents to be submitted.

### FO-1.1.9

Applicants seeking a family office licensee must pay a non-refundable license application fee of BD 100 at the time of submitting their formal application to the CBB. The licensee must, on annual basis pay an Annual License Fee which is 0.25% of the licensee's relevant operating expenses, subject to a minimum ('floor') of BD 2,000 and a maximum ('cap') of BD 6,000. Licensees must submit to the CBB Form ALF no later than 15<sup>th</sup> October of the preceding year for which the fees are due. The licensees are subject to direct debit for the payment of the annual fee and must complete and submit to the CBB a Direct Debit Authorisation Form by 15<sup>th</sup> September. For new licensees their first annual license fee is payable when their license is issued by the CBB. The amount payable is the floor amount.



MODULE	FO:	Family Offices
CHAPTER	FO-2:	Governance and Controls

## FO-2.1 Governance

### FO-2.1.1

Family office licensees must be headed by an effective, collegial and informed Board of Directors. The Board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy;
- (b) Establishing effective systems and controls, management of risks and compliance with laws and regulations;
- (b) Maintenance of adequate records and preparation of financial statements;
- (c) Monitoring management performance and adequate oversight over the licensee's outsourcing arrangements;
- (d) Communicating with shareholders and convening shareholder meetings; and
- (e) Monitoring conflicts of interest.

### FO-2.1.2

Family office licensees' boards must adopt a formal board charter or other statement specifying matters relating to the functioning of the boards including but not limited to:

- (a) Voting and non-voting members;
- (b) Decision making powers and authorities;
- (c) Specific requirements and responsibilities of directors;
- (d) Frequency of meetings of the board;
- (e) Recording of the minutes of the meetings; and
- (f) Dispute resolution.

### FO-2.1.3

The Board of a family office licensee must meet periodically and in accordance with the board charter and maintain a record of the minutes of the board meetings.



MODULE	FO: Family Offices
CHAPTER	FO-2: Governance and Controls

## FO-2.1 Governance (continued)

### FO-2.1.4

Family office licensees are required to appoint at least two senior executives who are resident in Bahrain, one of who is the CEO. Licensee must obtain the CBB's prior written approval for any person wishing to undertake a controlled function in the licensee as specified in Sections AU-1.2, AU-3.1 and AU-5.2. The CBB must be notified in case a controlled function falls vacant together with details of what interim arrangements will be made. The licensee, must agree with the CBB on the arrangement for the following activities/functions:

- (a) Financial control;
- (b) Risk management;
- (c) Internal audit;
- (d) Compliance; and
- (e) Money Laundering Reporting Officer's role.

Compliance and AML functions (which may be combined) must have on-site presence (either in-house or on a secondment basis).

### FO-2.1.5

The licensee must not outsource compliance and AML/CFT although certain support activities, processes and systems under these functions may be outsourced (e.g. e-KYC solutions). In all cases, strategic decision-making and managing and bearing the principal risks related to the licensee must remain with the licensee.



MODULE	FO: Family Offices
CHAPTER	FO-2: Governance and Controls

## FO-2.2 Internal Control Requirements

### FO-2.2.1

Family office licensees must conduct their activities in a professional and orderly manner, in keeping with good market practice standards. Licensees must comply with the general standards of business conduct contained in Paragraph BC-2.1.1. Licensees must disclose fees, costs and associated charges to its clients including the basis or amount of its charges, remuneration and commission in relation to family office services.

### FO-2.2.2

Family office licensees must have policies and procedures for valuation of assets belonging to clients which follow internationally recognised standards for valuation. Licensees must also utilise independent valuation experts to verify accuracy of valuation models as appropriate.

### FO-2.2.3

Family office licensees must ensure they have made adequate arrangements for safeguarding client assets comprising money, financial instruments or other assets belonging to clients which are held or controlled by the licensee in connection with its activities. Such arrangements must ensure the following:

- (a) Assets are segregated and are held separately from assets belonging to the family office licensee or to its other clients;
- (b) Client money must be held in a client bank account;
- (c) If held by third parties, then they must be subject to adequate KYC, legal and commercial due diligence and appropriate risk assessment; and
- (d) Agree with the client the details of any claims or set offs which the licensee may have in client assets held on behalf of the client.

### FO-2.2.4

Family office licensees must have effective customer complaints handling procedures and systems which are disclosed to its clients. Licensees must maintain a record of all customer complaints. Licensees must also submit to the CBB's Consumer Protection Unit at [complaint@cbb.gov.bh](mailto:complaint@cbb.gov.bh), a quarterly report summarising all the complaints received and actions taken.

### FO-2.2.5

Family office licensees must ensure the effective management of risks, compliance and internal audit activities. It must:

- (a) Establish an effective framework for identifying, measuring monitoring and managing risks;
- (b) Establish an independent compliance function and an appropriate compliance framework for the licensee based on its size and complexity of its operations;





MODULE	FO: Family Offices
CHAPTER	FO-2: Governance and Controls

## FO-2.2 Internal Control Requirements (continued)

- (c) Establish an effective independent internal audit that reports to the Board (internal audit may be outsourced but the Board must be responsible to oversee its activities); and
- (d) Establish business continuity management practices including maintaining a business continuity plan (BCP) appropriate to the size and complexity of their operations. The BCP must include procedures for ensuring that critical systems, functions and operations can be maintained or recovered in a timely manner in the event of a disruption.

### FO-2.2.6

Family office licensees must establish policies and procedures to manage conflicts to interest, including where appropriate maintaining information barriers, Chinese walls etc. Any conflict of interest must be disclosed to the client and obtain his no objection. If the licensee is unable to manage a conflict of interest it must decline to act for the client.

### FO-2.2.7

Family office licensees must maintain comprehensive books of accounts and other records (whether in electronic or hard copy form), which must be available for inspection within the Kingdom of Bahrain by the CBB, or persons appointed by the CBB, at any time. Licensees must maintain books and records sufficient to produce financial statements and show a complete record of the business undertaken and must retain such record for at least ten years.

### FO-2.2.8

Family office licensees must keep completed transaction records for as long as they are relevant for the purposes for which they were made with a minimum period in all cases of five years from the date when the transaction was terminated. Records of terminated transactions must be kept whether in hard copy or electronic format as per the Legislative Decree No. (54) of 2018 with respect to Electronic Transactions “The Electronic Communications and Transactions Law” and its amendments.



MODULE	FO: Family Offices
CHAPTER	FO-4: CBB Reporting

### FO-3.1 Reporting, Notifications and Approvals

**FO-3.1.1** Family office licensees must complete the relevant sections of the Semi-Annual Prudential Return ('Form SAPR') as at 30<sup>th</sup> June and 31<sup>st</sup> December and submit to the CBB a soft copy of the return before 31<sup>st</sup> August and 28<sup>th</sup> February respectively. Locally incorporated licensees that have subsidiaries must complete the returns on a consolidated basis while overseas licensees must complete the returns in respect of the business booked in Bahrain branch.

**FO-3.1.2** Family office licensees must submit to the CBB their final audited accounts within 3 months of the licensee's financial year-end. Such accounts should be submitted along with the Management Letter prepared by the Auditors for the financial year.

**FO-3.1.3** Family office licensees must complete the online non-financial information related to their institution by accessing the CBB's institutional information system (IIS). Licensees must update the required information at least on a quarterly basis or when a significant change occurs in the non-financial information included in the IIS. If no information has changed during the quarter, the licensees must still access the IIS quarterly and confirm the information contained in the IIS. Licensees must ensure that they access the IIS within 20 calendar days from the end of the related quarter and either confirm or update the information contained in the IIS.

**FO-3.1.4** Family office licensees must notify the CBB if any of the following has occurred, may have occurred or may occur in the near future:

- (a) Any matter which could affect the licensee's ability to continue to provide adequate services to its customers and which could result in serious detriment to a customer;
- (b) A breach of any provision of the CBB laws and regulations;
- (c) Any legal, professional, administrative or other proceedings instituted against the licensee, controller or a parent undertaking of the licensee that is significant in relation to the licensee's financial resources or its reputation;
- (d) The bringing of a prosecution for, or conviction of, any material offence under any relevant law against the licensee or against any of its approved persons; and
- (e) It becomes aware that an employee, or another person, may have committed a fraud, it suspects fraud and identifies irregularities in its accounting or other records, or that one of its employees may be guilty of serious misconduct concerning his honesty or integrity.



MODULE	FO: Family Offices
CHAPTER	FO-4: CBB Reporting

### FO-3.1 Reporting, Notifications and Approvals (continued)

#### FO-3.1.5

Family office licensees must obtain prior written approval from the CBB for the following:

- (a) A new controller or change of 10% or more in ownership interest of an existing controller;
- (b) Transfer of business to a third party;
- (c) Entering into a merger with another undertaking; a proposed acquisition, disposal or establishment of a new subsidiary undertaking;
- (d) Opening a new place of business as a subsidiary undertaking or a branch within the Kingdom of Bahrain or other jurisdiction;
- (e) A change in its registered/trade name;
- (f) A change in the address of the licensee's principal place of business in Bahrain;
- (g) A change in its legal status that may, in any way, affect its relationship, fiduciary or other obligations with or limit its liability to its customers;
- (h) Appointment of the external auditor;
- (i) A change in its authorised or issued capital; and
- (j) A change in its Memorandum or Articles of Association.



## Glossary

### Family Office Licensees

Family office licensees are wealth management and advisory firms that offer customised services to wealthy families.

### Family

Family for the purposes of Family Offices Module, generally means one or more individuals limited to the descendants of a common ancestor, their spouses including stepchildren and adopted children.

### Wealth Management Advice

“Wealth management advice” shall mean advice in wealth management organisation, wealth management planning, administrative or financial wealth management; or coordination of the service providers in wealth management, monitoring or assessment of performances.

### Investment Management

“Investment management” shall mean managing investments or assets in accordance with mandates given by the client, managing a portfolio of assets on a discretionary client-by-client basis where such investments include financial instruments, crypto-assets and other assets, and would include the activity of formation, origination and management of special purpose vehicles, trusts, investment limited partnerships, protected cell companies, collective investment undertakings and or other local or overseas domiciled legal vehicles.

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