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Collective Investment Undertakings – A new outlook for Bahrain funds

Zaid Khonji, August 01, 2012

A significant focus in 2012 in the financial services industry in the Kingdom of Bahrain is on mutual funds. In the wake of global economic recession the CBB has increased scrutiny over the funds regime to increase investor confidence, reduce risk exposure, and promote good corporate governance.

On April 1, 2012 the Central Bank of Bahrain (**CBB**) replaced the rules within CBB Rulebook Volume 6 (Capital Markets) with a far more comprehensive set of rules and regulations in a separate Volume 7 (Collective Investment Undertakings) (**CIUs**).

Volume 7 enhanced the existing rules and regulations, with regards to authorization and/ or registration and regulation of Bahrain Domiciled CIUs and Overseas Domiciled CIUs that are offered and marketed to investors resident in the Kingdom of Bahrain, with regards to the fund disclosure and documentation requirements, as well as the respective role, rights, obligations, and responsibilities of the relevant parties to a fund scheme. Restricted investment accounts (known as RIAs) commonly used by Islamic financial institutions to raise money for a wide range of investments and avoid the fund documentation disclosure requirements can no longer be used.

A fund scheme will be classified as a Retail CIUs, Expert CIUs, and Exempt CIUs. Volume 7 also makes provision for Shariah compliant ICUs as well as traditional ICUs. The CIU country of domicile, its targeted investors, its minimum investment threshold all need to be considered for CBB authorization and/ or registration requirements as well as ongoing regulatory and supervisory requirements for each type of scheme.

Volume 7 also expands the variety financial products by introducing the Bahrain Real Estate Investment Trusts (**REITs**) and Private Investment Undertakings (**PIUs**). REITs' objectives are to acquire, hold, administer, manage and sell income generating local and foreign real estate properties whether directly or indirectly. REITs will either be Expert CIUs or Exempt CIUs and are subject to additional special real estate requirements. PIUs have greater flexibility in structuring and are subject to limited regulatory and supervisory requirements to cater for private investments. In view of the associated risks, this type of scheme can only be offered to High Net Worth investors and has a minimum investment threshold of USD 3 million (or its equivalent in any other currency).

Both CBB licensees and non-CBB licensees, who are Relevant Persons of a Bahrain Domiciled CIU, (as defined under Volume 7), are subject to the enforcement provisions prescribed under the CBB Law in addition to the



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Module rules and regulations. The CBB's authorities and powers under the CBB Law include the request for documents, information, reports, statements, etc. and inspecting and investigating CIUs and taking administrative measures against violations, in addition to any penalties under the Penal Code.

It is worth noting that all CIUs' authorized/registered by the CBB prior to April 2012, are required to meet the provisions of Volume 7 by 31st December 2012, whereas, the rules are effective immediately for any newly established CIU.

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