



InFocus

Crypto-Asset Module Summary

A summary of crypto-asset regulations
issued by the Central Bank of Bahrain

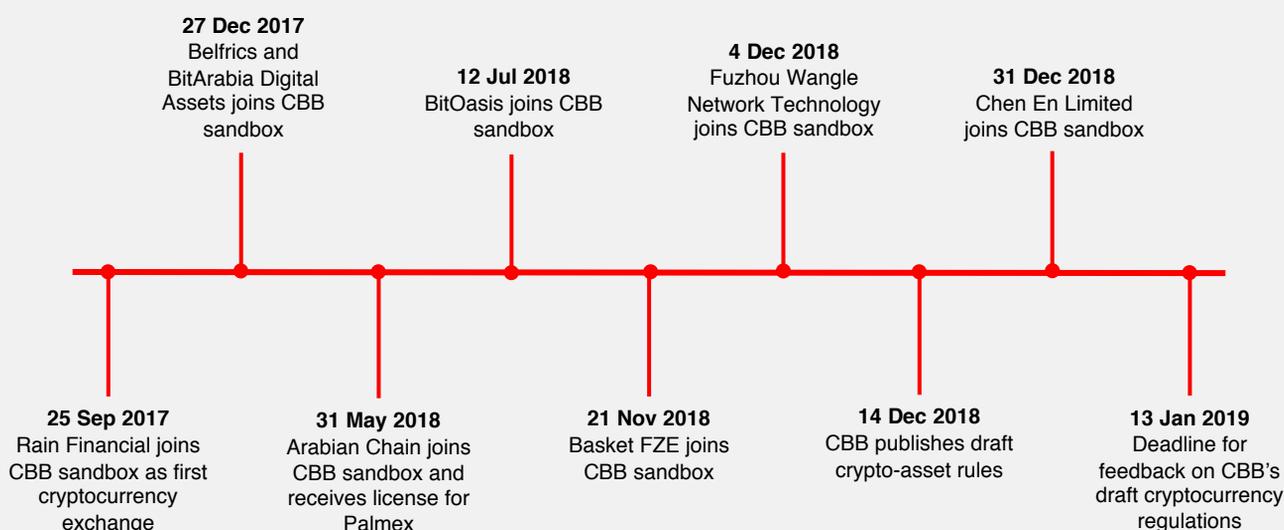
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INTRODUCTION

During December 2018, the Central Bank of Bahrain (CBB) announced the launch of draft regulations pertaining to Crypto-asset Platform Operators (CPO) under the CBB Rulebook Volume 6 (Capital Markets), which provides a framework to regulate and license crypto-asset operations in Bahrain. The CBB finalized the regulations on crypto-asset services and exchanges.

Approximately 40% of applicants in the sandbox as of January 2018 are companies dealing with crypto-asset. The issuance of draft crypto-asset rules by the CBB during December 2018 is a push toward greater inclusion of crypto-assets in Bahrain. In February 2019, the CBB finalized the crypto-asset regulations and updated the module to Crypto-Asset Module. The new regulations divide the type of crypto-asset services into four categories with a different minimum capital requirement for each. Each category has a different set of services that a crypto-asset operator can provide. Below is a summary report of the regulations on crypto-assets.

Timeline Of Crypto-asset Developments In Bahrain



DEFINITIONS

Crypto-asset

Crypto-assets are virtual, digital assets, or tokens operating on a blockchain platform and protected by cryptography. The CBB acknowledges four primary types of tokens:

- 1. Payment tokens:** a synonym for cryptocurrencies and is primarily used for acquiring goods/services.
- 2. Utility tokens:** provide access to a specific application or service but cannot be used as method of payment for external applications.
- 3. Asset tokens:** represent legally grounded assets includes debts or shares.
- 4. Hybrid Tokens:** possesses features of one or more of the other mentioned types of tokens.

Crypto-asset Platform Operator (CPO)

An entity that deals in accepted types of crypto assets as a principal or agent. Additionally, the entity stores and maintains custody of the crypto-assets on the behalf of clients.

KEY THEMES

Fees

Applicants are required to pay an application fee of BHD 100 (non-refundable) to the CBB. After gaining approval from the CBB, licensees are obligated to pay a variable annual license fees which is calculated based on 0.25% of the operating expenses. Minimum amount payable is BHD 2,000 and maximum BHD 6,000. New licensees are also obligated to pay a floor amount of BD 300 as the first annual license fee when the license is issued by the CBB.

Licensee profile

An applicant of the CPO is any individual or business that operates with a name containing the words "crypto", "digital", "currency", or "asset" in combination with "exchange", "manager", "adviser", "investment", or "portfolio". The legal structure of the licensee will be a Bahraini joint stock company. Overseas crypto-asset exchanger licensees would be considered but they must maintain a local management presence and premise(s) in Bahrain to be deemed eligible.

Minimum Capital Requirement

The regulations divide the type of crypto-asset services into four categories with a different minimum capital requirement for each. Each category has a different set of services that a crypto-asset operator can provide.

Category	Crypto-Asset Service	Obligations of Licensee	Capital Requirements
Category 1	<ul style="list-style-type: none">Reception and transmission of ordersProvide investment advice in relation to accepted crypto-assets.	<ul style="list-style-type: none">Must not hold any client assets or moneyMust refrain from receiving any fees or commissions from any party other than the clientMust not operate a crypto-asset exchange	BHD 25,000
Category 2	<ul style="list-style-type: none">Trading in accepted crypto-assets as agentPortfolio ManagementCrypto-asset custodyInvestment advice	<ul style="list-style-type: none">May hold or control client asset money but must not deal from their own account ("dealing as principal") or operate a crypto-asset exchange	BHD 100,000
Category 3	<ul style="list-style-type: none">Trading in accepted crypto-assets as agentTrading in accepted crypto-assets as principalPortfolio ManagementCrypto-asset custodyInvestment advice	<ul style="list-style-type: none">May hold or control client assets money, may deal on their own account ("dealing as principal") but must not operate a crypto-asset exchange	BHD 200,000
Category 4	<ul style="list-style-type: none">Operate a licensed crypto-asset exchangeCrypto-asset custody service	<ul style="list-style-type: none">Must not execute client orders against proprietary capital, or engage in matched principal trading	BHD 300,000

Insurance Requirements

Licensees must maintain professional indemnity coverage from an insurance firm approved and licensed by the CBB at a minimum amount of BHD 100,000.

Setting up operations

The licensee will have to begin operations within six months after receiving approval from the CBB or risk having the decision withdrawn. Following an approval from the CBB, the licensee will have to hire an independent third party to create a readiness assessment report that includes the licensee's risk management system, capital adequacy, organizational structure, operational manuals, and information technology, information system security policies.

Crypto wallets

The CBB highlights two primary kinds of crypto wallets that the licensee can consider. Firstly, a custodial crypto wallet restricts the client from having full control of its assets as the licensee is the designated custodian of the client's private keys. A non-custodial (self-custody) crypto wallet, on the other hand, provides clients with full control of its assets. In the case of alternative types of crypto wallet, licensees are encouraged to contact the CBB.

Client portfolio

Clients must be of legal age above 21 years old and cannot be an agent acting as a third party on behalf of another organization. Additionally, charitable funds, religious, sporting, social, cooperative and professional, and other societies cannot be registered as clients. Clients must also maintain a designated bank account with a licensed retail bank in Bahrain or acceptable licensed overseas retail bank and all transactions must be digital.

Licensee relationship with client

CPOs are obligated to have information readily available for their clients in respect to key developments including outages. Additionally, the licensees are restricted from selling, transferring, lending, or pledging client's crypto-assets to only the direction of clients.

Cybersecurity

Licensees are obligated to create cybersecurity policies and programs and ensure that employees and the management team are regularly informed about them. The program must include an internal plan to regularly update systems and software policies.

CONCLUSION

The report was produced with the intention of providing a summary of the CBB's Crypto-Asset regulations. The CBB has been the first in the GCC to finalize regulations of the crypto-asset module, thus taking a major step towards advancement in the local FinTech space.