



Bahrain: Amendments to the Crypto-assets rules

As part of the Central Bank of Bahrain's ('CBB') ongoing financial digital transformation in Bahrain, the CBB issued amendments to the Crypto Asset Module under Volume 6 of the CBB Rulebook in March 2023.

The CBB recognises the continuing growth in the market for crypto-assets and acknowledges that people around the world and in Bahrain are dealing, buying, selling or otherwise holding positions in crypto-assets.

Accordingly, the CBB has amended its Crypto Asset Module to cater to the ongoing developments in the crypto-assets markets and comply with industry best practices while enhancing investors' protection, as part of the CBB's plan to further develop the crypto-assets market in Bahrain.

The rules under the Crypto Asset Module ('Rules') which previously covered the licensing categories and requirements, minimum capital requirements, measures to safeguard client or customer interests and the reporting, notifications and approval requirements have now been extended to "Digital Token Offerings". Accordingly, all offers of digital tokens that exhibit the characteristics of security will now be regulated by the CBB.

Crypto Assets

Under Volume 6 of the CBB Rulebook, the term 'crypto-assets' has been defined as cryptographically secured digital representation of value or rights which may be transferred and stored electronically, using distributed ledger technology or similar technology but does not include central bank issued digital currencies. Most common forms of crypto-asset are:

- a) **Payment tokens:** these are virtual tokens which can be digitally traded and used for acquiring goods or services or for investment purposes. Payment tokens give rise to no claims on their issuer and are usually decentralised. The most prominent example is Bitcoin.
- b) **Utility tokens:** these are tokens that are intended to provide access to a specific application or service.
- c) **Asset tokens:** these represent assets such as a debt or equity claim on the issuer. Asset tokens promise, for example, a share in future company earnings or future capital flows. In terms of their economic function, therefore, these tokens are analogous to equities, bonds or derivatives. Tokens which enable physical assets to be traded on the blockchain also fall into this category.
- d) **Hybrid Tokens:** these have features of one or more of the other three (3) types of tokens.

Any person wishing to undertake regulated crypto-asset services within or from Bahrain is required to obtain a crypto asset license from the CBB. Regulated crypto-asset services means the following types of activities, as amended:

- a) **Reception and Transmission of order:** The reception from a client of an order to buy and/or sell one or more crypto-assets and the transmission of that order to a third party for execution.
- b) **Trading in crypto-assets as agent:** Acting to conclude agreements to buy and/or sell for one or more crypto-assets on behalf of the clients.

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- c) **Trading in crypto-assets as principal:** Trading against proprietary capital resulting in conclusion of transactions in one or more crypto-assets.
 - d) **Portfolio Management:** Managing crypto-assets belonging to a client and the arrangement for their management are such that the licensee managing those crypto-assets has a discretion to invest in one or more crypto-assets.
 - e) **Crypto-asset Custodian:** Safeguarding, storing, holding, maintaining custody of or arranging on behalf of clients for crypto-assets.
 - f) **Investment Advice:** Giving or offering, to persons in their capacity as investors or potential investors or as agent for an investors or potential investor, a personal recommendation in respect of one or more transactions relating to one or more crypto-assets. A “personal recommendation” means a recommendation presented as suitable for the client to whom it is addressed, or which is based on a consideration of the circumstances of that person, and must constitute a recommendation to buy, sell, exchange, exercise or not to exercise any right conferred by a particular crypto-asset, or hold a particular crypto-asset.
 - g) **Crypto-asset exchange:** A crypto-asset exchange, licensed by the CBB and operating in or from Bahrain, on which trading, conversion or exchange of:
 - a. crypto-assets for fiat currency or vice versa; and/or
 - b. crypto-assets for another crypto-asset,may be transacted in accordance with the rules of the crypto-asset exchange.
 - h) **Digital token advisor:** advise and guide a digital token issuer on all matters relating to offering of digital tokens, trading of digital tokens as well as on the responsibilities and obligations of the digital token issuer pursuant to the provisions of applicable law, rules and regulations.

Digital Tokens

Under Volume 6 of the CBB Rulebook, the term 'digital tokens' has been defined as asset or utility tokens that satisfy the definition of securities under the CBB law, its implementing rules and regulations.

Digital tokens have the potential to spur innovation and efficiency in capital raising or as investment opportunity and, as a result, the market for digital token has been growing at a rapid pace. While digital tokens may present a new way to raise capital, they also bring increased risk due to the underlying technologies upon which they are structured.

Prior to offering a digital token, the digital token issuer is required to obtain a written approval from the CBB.

Licensing Categories

Depending on the type of regulated crypto-asset services that a person wishes to undertake, they may seek to be licensed by the CBB under one of the following four (4) categories:

- a) **Category 1 licensees** may undertake the following regulated crypto-asset service:
 - a. Reception and transmission of orders; and
 - b. Provide investment advice in relation to crypto-assets.
 - b) **Category 2 licensees** may undertake the following regulated crypto-asset service:
 - a. Trading in crypto-assets as agent;
 - b. Portfolio Management;
 - c. Crypto-asset custody; and
 - d. Investment advice.
 - c) **Category 3 licensees** may undertake the following regulated crypto-asset service:
 - a. Trading in crypto-assets as agent;
 - b. Trading in crypto-assets as principal;
 - c. Portfolio management;
 - d. Crypto-asset custody;
 - e. Investment advice; and
 - f. To act as a digital token advisor.
 - d) **Category 4 licensees** may undertake the following regulated crypto-asset service:
 - a. Operate a licensed crypto-asset exchange;
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- b. Crypto-asset custody service; and
- c. To act as a digital token advisor.

Licensing Requirements

Persons wishing to be licensed to undertake the activities of regulated crypto-asset services must apply in writing to the CBB. An application for a license must be in the form prescribed by the CBB and must contain, *inter alia*:

- a) A business plan specifying the type of business to be conducted;
- b) Application forms for all shareholders; and
- c) Application forms for all controlled functions.

Crypto Asset licensees intending to offer regulated crypto-asset services which were not included in its application for licence and/or additional services which are not part of the regulated crypto-asset services specified above, are required to seek the CBB's prior written approval before offering such services. Crypto Asset licensees must provide the CBB with detailed description of the new services, the resources required and the operational framework for such service.

The legal status of a licensed crypto-asset service licensee must be:

For undertaking Category-1, Category-2 and Category-3 regulated crypto-asset services

- a) A Bahraini company with limited liability (W.L.L.); or
- b) A Bahraini joint stock company.

For undertaking Category-4 regulated crypto-asset services (Licensed crypto-asset exchange) a Bahraini joint stock company.

The minimum capital requirements for a crypto asset license are as follows:

Minimum Capital Requirement Sl. No.	Licensing Category	Minimum Capital (BD)
1.	Category 1	25,000
2.	Category 2	100,000
3.	Category 3	200,000
4.	Category 4	300,000

In addition to the minimum capital requirements, the CBB may, at its discretion, require licensees to hold additional capital in an amount and form as the CBB determines, should this be necessary (in the CBB's view) to ensure the financial integrity of the licensee and its ongoing operations.

All potential applicants are strongly encouraged to contact the CBB at an early stage to discuss their plans, for guidance on the CBB's license categories and associated requirements.

The issuance of, and the amendments to the Rules is a substantial step towards financial digital transformation in Bahrain. Since the issue of the Rules, the CBB has issued three (3) crypto asset licenses in category 3 and one (1) license in category 4. The Rules, as amended appear to cater to the diversity and growing needs of the financial markets and maintain CBB's reputation as one of the most forward-thinking financial services regulators in the region.

Key contacts

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