

Central Bank of Bahrain publishes reporting template for economic substance requirements

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Executive summary

The Central Bank of Bahrain (CBB) has published a reporting template and guidance notes for economic substance requirements that apply to licensees engaged in regulated activities in line with its November 2018 Directive. The Ministry of Industry, Commerce, and Tourism (MOICT) has issued similar guidance for non-regulated commercial activities.¹

Detailed discussion

The guidance sets out reporting requirements and confirmations to be made by licensees engaged in such activities that will be used to determine whether the licensees have the level of substance required under the CBB's economic substance rules.

The CBB guidance applies to licensees engaged in banking, financial leasing, financing companies, insurance, investment business firms (category 1 & 2), and fund administrator activities in Bahrain.

The rules apply to financial periods starting on or after 1 January 2019, and reports must be submitted within three months from the end of the financial year. For licensees reporting based on a calendar year, the first reporting deadline will be 31 March 2020.

The CBB guidance

A. Reporting template

The reporting template includes specific confirmations that the licensees must make including a declaration of compliance to be completed by an authorized official of the licensee. The return must include all the core income generating activity (CIGA) that it engages in, as each CIGA needs to demonstrate economic substance, respectively.

The licensee must also include confirmation that the direction and management is in Bahrain, that the licensees' CIGA is conducted in Bahrain, and that the licensee has adequate key decision-makers and qualified employees.

The guidance requires that licensees report details of the CIGA, income generated from CIGA, amount of operating expense and employees, as well as explanations as to why the operating expenses and employees are adequate for the respective CIGA.

B. Reporting deadlines

The CBB Directive requires that, for financial periods starting on or after 1 January 2019, licensees in Bahrain file on an annual basis a report to the CBB confirming that they meet the economic substance requirements. The reporting template indicates that this annual report must be submitted to the CBB within three months of the end of the financial year. For licensees reporting based on a calendar year, the first reporting deadline will be 31 March 2020.

C. Penalties

The Directive specifies that failure of a licensee to file an annual return or meet the economic substance requirements may result in enforcement action being imposed by the CBB, but does not specifically outline the nature of such enforcement action.

Implications

Licensees engaged in regulated activities in Bahrain should review the CBB guidance to determine their confirmation and reporting requirements and evaluate whether they have the level of substance required under the CBB's economic substance rules.

Endnotes

1. For previous comments on the economic substance rules, see EY Global Tax Alerts, [Bahrain publishes economic substance guidance for non-regulated commercial activities](#), dated 28 January 2020 and [Bahrain clarifies economic substance requirements](#), dated 30 September 2019.

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