



*Unofficial translation*  
*Main document issued by Central Bank of Iraq*  
*Arabic Language*

# **Regulations**

## **Small, Medium, and Micro**

## **Business Enterprise**

## **Financing**



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## Introduction

These guidelines have been prepared in line with international standards for combating money laundering, the financing of terrorism, and proliferation, including the Financial Action Task Force (FATF) recommendations updated in 2022, and international best practices in this regard. The purpose of these guidelines is to help banks and non-banking financial institutions reduce the risks of non-compliance with domestic and international sanctions lists and the resulting financial, legal, and reputational losses. This is intended to open up broader horizons of domestic and international dealings by providing guidance and assistance to financial institutions subject to the supervision of this bank, helping them improve their understanding and effective performance of their legal obligations under the applicable legal and regulatory framework of this bank, the Anti-Money Laundering and Counter-Terrorism Financing Law, and the instructions and controls issued pursuant thereto.



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## Chapter 1 (General Provisions)

Based on the provisions of Article (2/4/b) of the Central Bank of Iraq Law No. (56) of 2004 (as amended) and the decision of the Board of Directors of the Central Bank of Iraq at session No. (1653) held on April 23, 2024, these regulations were issued:

Sub/Regulations for Regulating the Work of Small, Medium, and Micro Enterprise Finance Companies No. (1) of 2024

### Article (1) Definitions

For the purposes of these regulations, the following terms shall have the meanings indicated opposite them:

First: The Bank: The Central Bank of Iraq.

Second: The Company: The Small, Medium, and Micro Enterprise Finance Company.

Third: The Board of Directors: The company's board of directors.

Fourth: The Managing Director: The company's senior executive director, responsible for managing day-to-day operations, with authorization from its Board of Directors.

Fifth: Branch: An administrative entity affiliated with the company that carries out all or some of its licensed activities.

### Article 2

First: The company shall be established as a company for financing small, medium, and micro enterprises. It shall acquire legal personality in accordance with the provisions of the Companies Law No. 21 of 1997 in force and shall be a joint-stock company after obtaining the approval of this bank.

Second: The Bank may establish specific controls for Islamic financing for financing companies wishing to obtain a license and finance projects in accordance with Islamic Sharia.

Third: Initial approval for a license does not entail any obligation on the Bank to grant final approval. The decision to grant final approval remains at the Bank's discretion, based on the specifics of each case.

Fourth: Micro, small, and medium-sized enterprise financing companies may operate after obtaining a final license from the Bank and are subject to its supervision and oversight.



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## Chapter 2 (Capital)

### Article 3

First: The capital of a company engaged in the activity stipulated in Article 2 (First) of these controls shall not be less than 100,000,000,000 dinars (one hundred billion dinars for a joint-stock company). The Bank may change this capital according to its requirements.

Second: The company's capital must be fully paid into an account with the bank, amounting to forty billion dinars upon incorporation. The remainder must be paid in three equal annual installments from the date of granting the license.



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### Chapter 3: Establishment and Licensing

#### Article 4

First: Licensing applications for local companies must be supported by the requirements specified by this bank, including at least the following:

1. Trade name in Arabic and English.
2. Feasibility Study: The feasibility study shall be submitted for three years, specifying the target market, the services to be provided, and the company's business model and strategy. It must include at least the following:
  - a. Estimated financial statements, a statement of expected annual expenses and revenues, financial margins, and targeted growth rates during the first three years of operation, taking into account the bank's requirements.
  - b. Expected costs to start the business and their financing method.
  - c. Expected financing for operations.
  - d. Risk factors.
  - e. Summary of the organizational structure, legal form, and governance standards adopted by the company.
  - f. Location of the company's intended headquarters.
  - g. The number of branches expected to be opened during the next three years.
  - h. An employment plan, stating the number of employees expected to be hired.
3. Submission of documents and papers supporting the company's sources of funds and ownership, indicating the beneficial owner.
4. The company's articles of association and certificate of incorporation certified by the Ministry of Commerce/Registrar of Companies.
5. The authorized and subscribed capital amounts of the applicant company, as determined by the bank from time to time.
6. The name, nationality, and permanent residence of each manager, along with a detailed statement of qualifications and professional experience.
7. An organizational structure showing the main tools, units, reporting lines, authorities, and responsibilities. This structure must be appropriate and acceptable to the bank.
8. Any other information the bank subsequently requests regarding the application.
9. Payment of the licensing fees.

Second, license applications for foreign companies must be submitted with the requirements specified by this bank, including at least the following:

1. Documents proving the registration of the parent company, along with information about its shareholders, the nationality of each, and the names of its managers, authorized representatives, and legal representatives, duly certified and translated.
2. Approval from the regulatory authority in the home country to operate in Iraq.
3. Approval from the parent company's general assembly to operate in Iraq.
4. A list of the parent company's branches in the home country and any other country.
5. A pledge from the parent company to notify the bank of any developments that may have a negative impact on its reputation or financial position.
6. A feasibility study. A three-year feasibility study must be submitted, identifying the target market, the services to be provided, and the company's business model and strategy in Iraq. It must include at least the same requirements referred to in paragraph (2) of item (a) of this article.



7. Submission of documents and evidence supporting the company's sources of funds, including a statement of the ultimate beneficiary.
8. The name, nationality, and permanent residence of each administrator, along with a detailed statement of qualifications and professional experience.
9. An organizational structure showing the main tools, units, reporting lines, authorities, and responsibilities. This structure must be appropriate and acceptable to the bank.
10. Any other information the bank subsequently requests regarding the application.
11. Payment of the required licensing fees.

Third: The company must establish administrative units that organize its work, with at least the following competencies:

Financial Management, Risk Management, Credit Compliance Controller, Anti-Money Laundering and Counter-Terrorism Financing, Internal Audit, Financial Awareness, Public Protection, and Complaint Handling, Information Technology, and Legal Management.

#### Article 5

First: The company, with the bank's approval, may do the following:

1. Open branches within Iraq pursuant to an annual plan.
2. Close, merge, or transfer any of its branches.
3. The company may receive donations and gifts from inside or outside Iraq and use them after obtaining the bank's approval.

Second: The provisions of the Anti-Money Laundering and Counter-Terrorism Financing Law in force, along with the instructions and controls issued thereunder, shall be observed when the company accepts gifts and donations and considers them as part of the company's capital.

Third: The company may borrow from the Iraqi banking system or any competent local or foreign financial institution in this field that meets the bank's requirements, including banks participating in its capital as shareholders, with a percentage not exceeding 300% of its capital and reserves, in a manner that assists it in achieving its objectives and does not conflict with the provisions of the Companies Law.

Fourth: The company must not make any changes to its name, legal form, capital, or merger without obtaining prior approval from the bank.

Fifth: The company may engage in any other activities related to its core activities after obtaining the bank's approval.

Sixth: The company has the right to contract with service providers licensed by the bank, in a manner consistent with the company's activities and objectives.



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## Chapter 4 (Financing)

### Article 6: Lending and Financing Contracts

First: Lending and financing contracts must include the following:

1. The name and information of the borrower (client) and their address.
2. The financing term and repayment mechanism.
3. The amount of interest or return due on the financing and the method of calculating it.
4. The guarantees provided by the borrower (client).
5. The reason and purpose of the financing.
6. The installment schedule and the total amount to be paid by the borrower (client).
7. Any commissions and/or other costs associated with the financing.
8. The financing currency and the currency for repaying the installments.
9. The method of repaying installments: cash with the company, deposit in a special account at a bank, deposit with an agent, or any payment method licensed by the bank.
10. The mechanism and conditions for early repayment, all fees and costs involved, and the interest refunded.
11. The borrower (client) must sign the full financing terms and conditions.

Second: When entering into lending contracts with a client, the following must be taken into account:

1. The borrower (client) must review each clause of the loan or financing contract before signing it with the company, as well as the total cost, and ensure that all fields related to interest/returns, fees, commissions, and other costs are completed.
2. The borrower (client) must be provided with a copy of the loan contract after it has been approved by the company's legal department.
3. Informing the borrower (client) of the reasons for the rejection of their financing application.

Third: The company must take into account the following:

1. Adopt regular procedures for classifying the loans and funds it grants to its clients in accordance with the bank's regulations and directives. Loan and fund classification requirements and allocations may be updated from time to time in accordance with instructions issued by the bank.
2. Follow a sound methodology, with written, transparent, and clear procedures, to assess the creditworthiness of applicants and their ability to repay.
3. The company must establish financing policies and procedures that include, at a minimum, the following:
  - a. Creditworthiness Classification.
  - b. Procedures for dealing with low credit ratings and non-performing loans and funds.
  - c. Acceptable collateral and the basis for assessing their value or quality.
  - d. Monitoring, managing, and enforcing collateral.
  - e. Establishing provisions to address risks.
4. The company is committed to providing sufficient and transparent information to its borrowers, including the costs and risks associated with the financing, to enable the borrower to prepare an informed assessment of the suitability of the financing. Due to his need and financial circumstances.

### Article 7

When granting loans and financing, the company must take into account credit concentrations, whether individual or to a group of clients, related parties, or those with interests overlapping with the company, provided that they do not exceed one-fifth of the company's capital.



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## Chapter 5: The Board of Directors and Executive Management

### Article 8

The composition of the Board of Directors, its meetings, powers, and authorities are subject to the provisions of Companies Law No. 21 of 1997 (as amended), provided that the following is taken into account when appointing the Chairman and members of the Board of Directors:

1. The current Chairman of the Board of Directors or any of its members must not have previously been the Chairman or member of the Board of Directors of a bank or financial company that has declared bankruptcy, whether inside or outside Iraq.
2. The member must be at least 30 years old.
3. At least three members of the Board of Directors must have experience in financial or banking matters and hold at least a first-class university degree in accounting, management, economics, law, or any other specialty approved by the bank.
4. The company must notify the bank of any change in the company's board of directors.

### Article 9

The company shall appoint an authorized director, an assistant director, and directors of the departments stipulated in Clause (Third) of Article 4 of these regulations. The Non-Banking Financial Institutions Supervision Directorate shall issue regulations for candidates to fill positions in these units, taking into account that those holding these positions must meet the following conditions:

1. Reside in Iraq.
2. Be dedicated to managing the position.
3. Not have been convicted of a felony or misdemeanor involving moral turpitude, be a competent and fit person, possess legal capacity, and not have been subject to a decision by a competent judicial authority ruling their unfitness to manage the company.



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## Chapter 6: Accounting Records and Books

### Article 10

The company shall be subject to audit and inspection by the bank, taking into account the legal provisions stipulated in Companies Law No. 21 of 1997, and its requirements.

First, submit its records, accounts, and transactions for audit.

Second, for audit purposes, the company must provide full access to its accounts, records, and documents and must provide such information and facilities as requested for inspection.

Third, provide the bank with the following on a quarterly basis:

1. Sources of financing.
2. A statement of loans and funds granted or to be granted.
3. The interest rate or return charged on loans and financing granted by it.
4. The purpose of granting financing and its consistency with the company's objectives.
5. Loan and financing granting mechanisms and guarantees.
6. A statement of the amounts of allocations set aside to address risks.
7. Any other information requested by the bank.

Fourth: The company must do the following:

1. The company must retain its records and documents for a period of no less than five years after the end of the relationship with the borrower (client).
2. Retain books, records, statements, and other documents related to its financial activities in paper or electronic form for the period specified in the paragraph above.

### Article 11

The company shall appoint an auditor licensed by the Council of the Auditing Profession, whose name shall be published in the annual bulletin issued by the Council.

First: The auditor shall be obligated to notify the bank in writing of the following:

1. Any existing or potential errors in the company's operations.
2. Any material errors and any other violations of laws, instructions, or orders issued by the bank.

Second: The company is obligated to submit its annual audited financial statements, accompanied by the external auditor's report, which shall include his opinion on those statements.



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## Chapter 7 (Obligations)

### Article 12

The company is committed to the following:

First: Establishing an electronic system for recording and managing loans, funds, and installments electronically, including electronic archiving of all transactions and customer data, ensuring the availability, integrity, integrity, and confidentiality of information.

Second: Excluding members of the company's board of directors, the authorized manager, members of the board of directors of joint-stock companies, their authorized managers, or their first-degree relatives from the loans and funds it grants.

Third: Allocating financial allocations to address the risks that the company may be exposed to, in accordance with requirements determined by the bank.

Fourth: Monitoring the use of its loans and funds by beneficiaries to ensure their recovery in accordance with the law.

Fifth: Managing its accounts through bank accounts held with authorized banks.

Sixth: Uploading borrower data into the credit registry system, in accordance with the controls and instructions issued by the bank.

Seventh: Inquiring about each borrower through the bank's approved credit inquiry system before granting any financing.

Eighth: Ensure the implementation of anti-money laundering and counter-terrorism financing procedures, specifically ensuring that Know Your Customer procedures are in place and operating efficiently, in accordance with the bank's instructions and Anti-Money Laundering and Counter-Terrorism Financing Law No. 39 of 2015.

Ninth: Develop a written compliance policy approved by the Board of Directors. The compliance policy defines the powers, obligations, and responsibilities of the compliance function and must also include compliance programs and related procedures, including arranging training programs.

Tenth: Develop adequate internal procedures and policies to combat financial crimes, particularly money laundering and terrorist financing. The company must report any suspicious transactions or activities to the Anti-Money Laundering and Counter-Terrorism Financing Office.



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## Chapter 8 (Confidentiality of Information)

### Article 13

The company is obligated to maintain confidentiality regarding the information and data of its customers.



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## Chapter 9 (Penal Provisions)

### Article 14

First: The bank's board of directors may suspend the company's operations for a period it deems appropriate in the event of any of the following:

1. The company engages in activities inconsistent with its license.
2. Violation of relevant laws, regulations, instructions, or orders.

Second: The company is prohibited from receiving deposits and trusts of any kind, or from engaging in money exchange activities.

Third: if a company fails to comply with any of the provisions of these controls, the bank may impose appropriate penalties and take any other measures it deems appropriate, commensurate with the type and severity of the violation, the resulting impact, the profits generated, and the damages incurred by its clients.

Fourth: a company wishing to cease or suspend its licensed activities must submit a request for cessation or suspension at least six months in advance, stating the reasons for such cessation.

### Article 15

The bank may, at any time, pursuant to a decision issued by its board of directors, decide the following:

First: Revoke or withdraw any license granted to any company, commensurate with the violation committed, in the following cases:

1. If the company violates any of the provisions of these controls, the license granted to it, the provisions of the Central Bank Law, any other applicable laws or regulations, or decisions, instructions, directives, or circulars issued by the bank, including regulations pertaining to anti-money laundering and counter-terrorism financing requirements.
2. If the company, or any person acting on its behalf, including its directors, supervisors, or agents, provides false, misleading, or inaccurate information to the bank.
3. If the interests of current or potential customers are jeopardized, whether as a result of the company's conduct of business, the manner in which it intends to conduct its business, or for any other reason.
4. If a liquidation order is issued for the company or its parent company by any competent judicial authority inside or outside Iraq.
5. If a final court ruling is issued declaring the company bankrupt.
6. If the bank determines that the company is unable to pay its outstanding debts.
7. If the company conducts any business activity from a location other than the location declared to the bank.
8. If the company fails to conduct its business despite a continuous period of more than two years since its establishment without a legitimate excuse.
9. If the foreign branch fails to conduct any commercial activity four years after the date of its last commercial activity.
10. Failure of the registered branch to submit the required final accounts and documents for two consecutive years after the issuance of the registration license, without a legitimate excuse.
11. The company has ceased its activities for a period exceeding two years without a legitimate excuse.
12. Proof that the company has engaged in transactions that violate the provisions of Anti-Money Laundering Law No. 39 of 2015.



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13. The company has failed to meet any of the licensing requirements.
14. Failure to implement anti-money laundering and counter-terrorism financing standards.
15. Any other reason the bank deems convincing to revoke the license.

Second: Any license granted to any company may be revoked upon a request submitted by the company's director and founders.



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## **Chapter 10 (Final Provisions)**

### [Article 16](#)

First: These regulations shall be effective from the date of approval.

Second: Finance companies licensed prior to the issuance of these regulations shall be granted a grace period of three years from the date of their issuance to adapt their conditions to the new regulations.



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