

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

11th June 2010

The Directors
Investment Services Licence Holders

**Securities and Markets
Supervision Unit**

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Dear Sirs,

Circular letter regarding the Risk Management and Internal Capital Adequacy Assessment Process ("RMICAAP")

On 25th September 2008 the MFSA issued a circular regarding the enforcement of the new regulatory requirements relating to the RMICAAP. As indicated in the said circular, the rules relating to the RMICAAP were included in a new sub-section in Section 7 of Part B of the Investment Services Rules for Investment Services Providers ('**the Rules**') and became applicable as from 1st January 2009. In this regard, SLC 7.45 of Part B of the Rules indicates that:

"... the Licence Holder shall have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed. This is hereinafter referred to as the Licence Holder's Internal Capital Adequacy Assessment Process.

The Licence Holder shall, on yearly basis, review its Risk Management and Internal Capital Adequacy Assessment Process ('RMICAAP') with the aim of ensuring that this process remains comprehensive and proportionate to the nature, scale and complexity of the activities of the Licence Holder concerned.

In preparing, reviewing and updating its RMICAAP, a Licence Holder shall refer to the Guidance Notes on Risk Management and Internal Capital Adequacy Assessment for Investment Services Licence Holders, Regulated Markets and Central Securities Depositories."

In view of the requirements relating to the RMICAAP, **the Authority expects Licence Holders to prepare a comprehensive RMICAAP Report and to review this on a yearly basis.** A specimen of the RMICAAP Report has been included in the Annex to the Guidance Notes on Risk Management and Internal Capital Adequacy Assessment for Investment Services Licence Holders, Regulated Markets and Central Securities Depositories ('**Guidance Notes**'), which have also been issued by the Authority on the 25th September 2008.

The requirements relating to the preparation of the RMICAAP Report do not apply to: [i] credit institutions which are also Licence Holders given that these will be subject to the requirements for credit institutions arising from the Banking Act, Cap. 371; [ii] Category

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1 Licence Holders; and [iii] Licence Holders which only provide management services to collective investment schemes.

It has come to the attention of the MFSA that certain Licence Holders are not satisfying their regulatory obligations relating to the RMICAAP in full as they are omitting to prepare the RMICAAP Report.

It is to be noted that in terms of SLC 7.47 of Part B of the Rules, Licence Holders may from time to time be requested by the Authority to submit a copy of their RMICAAP Report. Licence Holders are also expected to provide the latest RMICAAP Report to MFSA Compliance Officials upon request during Compliance Visits. In the event that Licence Holders fail to prepare and present such RMICAAP Report upon request, this will constitute a breach of the licence conditions which will be subject to the appropriate regulatory action.

Should you have any queries regarding the above, please do not hesitate to contact Mr. Christopher P. Buttigieg - cbuttigieg@mfsa.com.mt or 2548 5229 or Ms. Mellyora Grech - mgrech@mfsa.com.mt or 2548 5193 or the undersigned cparlatotrigona@mfsa.com.mt or 2548 5272.

Yours sincerely,



Cristina Parlato Trigona
Director