

# MFSA

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## MALTA FINANCIAL SERVICES AUTHORITY

### Circular

## **Clarifications to the Industry following the recent changes in the composition of the Audit Committee**

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### **Introduction**

The requirements for the composition of the Audit Committee are contained in Article 39 of the Statutory Audit Directive which requirements are reflected in Listing Rule 5.117<sup>1</sup>. With effect from 11 August 2016, an Audit Committee needs to be composed entirely of non-executive directors, the majority of who shall be independent of the Issuer.

This modified composition aims to ensure that there is the necessary level of independence for the audit committee to carry out its role. As provided for under Listing Rule 5.139<sup>2</sup>, one of the purposes of the Audit Committee is the vetting and approval of related party transactions.

### **Background**

Subsequent to the entry into force of the recent amendments to the composition of the Audit Committee, the Listing Authority has received proposed appointments of non-executive members on the Audit Committee of finance companies, who also held an executive day-to-day management role within one or more group companies.

### **Main Principle**

The primary purpose of the Audit Committee of an Issuer is to protect the interests of the Issuer's shareholders and assist the directors in conducting their role effectively so that the company's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

Additionally, the Audit Committee has the role and function of considering and evaluating the arm's length nature of any proposed transaction to be entered into by an Issuer and a related party, given the role and position of the Issuer within the Group, to ensure that the execution of any such transaction is, at arm's length, on a sound commercial basis and in the best interests of the Issuer.

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<sup>1</sup> The Listing Rules issued by the Listing Authority in accordance with the provisions of the FMA as they may be amended from time to time.

<sup>2</sup> Ibid.

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**In light of these principles, and in order to ensure that the execution of related party transactions is indeed carried out at arm's length, free from any business or other relationship, the Listing Authority has decided that where an Issuer is a finance holding company, the non-executive members of the Audit Committee should not be involved in the day-to-day management of any group companies.**

## **Contacts**

Any queries or requests for clarifications in respect of the above should be submitted on email address [capitalmarkets@mfsa.com.mt](mailto:capitalmarkets@mfsa.com.mt)

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