

INVESTMENT SERVICES RULES  
FOR  
INVESTMENT SERVICES PROVIDERS

PART BIV: STANDARD LICENCE CONDITIONS APPLICABLE TO  
INVESTMENT SERVICES LICENCE HOLDERS WHICH  
QUALIFY AS CUSTODIANS

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**MFSA**

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MALTA FINANCIAL SERVICES AUTHORITY



## INVESTMENT SERVICES RULES FOR INVESTMENT SERVICES PROVIDERS

### PART BIV: STANDARD LICENCE CONDITIONS APPLICABLE TO INVESTMENT SERVICES LICENCE HOLDERS WHICH QUALIFY AS CUSTODIANS

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#### Introduction

*Part BIV of the Investment Services Rules for Investment Services Providers applies to Investment Services Licence Holders which have been authorised to act as Custodians of Collective Investment Schemes and are therefore in possession of a Category 4 Investment Services Licence issued in terms of the Investment Services Act.*

#### 1. General Requirements applicable to Custodians of Collective Investment Schemes

The Standard Licence Conditions prescribed in this section shall apply where the Licence Holder proposes to act as Custodian of a Collective Investment Scheme which is third-party managed or self-managed.

#### Eligibility Criteria

1.01 The Licence Holder is required to have a Category 4a or 4b Investment Services Licence and an established place of business in Malta.

1.02 The Licence Holder shall commence its Investment Services Business within twelve months of the date of issue of the Category 4 Investment Services Licence.

If, for any reason the Licence Holder is not in a position to comply with this condition, it shall notify the MFSA in writing setting out the reason/s for such a delay together with an updated business plan indicating the proposed date of commencement of business. On the basis of the information provided and the circumstances of the case, the MFSA may decide to suspend or cancel the Licence in accordance with the relevant provisions of the Act.

1.03 The Licence Holder shall co-operate in an open and honest manner with the MFSA and inform it promptly of any relevant information. The Licence Holder shall supply the MFSA with such information and returns as the MFSA requires.

1.04 Where a Standard Licence Condition demands that the Licence Holder notifies the MFSA of an event, such notification shall be made to the MFSA formally, in a durable medium. The request to notify the MFSA of an event shall not be satisfied merely by

the fact that the information which ought to be notified to the MFSA is included in a standard regulatory return.

- 1.05 The business of the Licence Holder shall be effectively directed or managed by at **least two individuals in satisfaction of the “dual control” principle**. Such persons shall be of sufficiently good repute and sufficiently experienced so as to ensure the sound and prudent management of the Licence Holder.

Moreover, the Licence Holder shall take reasonable steps to ensure continuity and regularity in the performance of Investment and Ancillary Services. To this end, the Licence Holder shall employ appropriate and proportionate systems, resources and procedures.

- 1.06 The Licence Holder shall notify the MFSA in writing of:
- a. a change in the name or business name (if different) at least one month in advance of the change being made.
  - b. a change of address: at least one month in advance.
  - c. the departure of a Director or Senior Manager: within 14 days of the departure. The Licence Holder shall also request the Director or Senior Manager to confirm to MFSA that their departure had no regulatory implications or to provide relevant details, as appropriate. A copy of such request shall be **provided to MFSA together with the Licence Holder’s notification of departure**.
  - d. the ultimate beneficial ownership of any party directly or indirectly controlling **10 per cent or more of the Licence Holder’s share capital on becoming aware** of the situation.
  - e. any acquisitions or disposals of shares which fall within the disclosure provisions of Article 10 of the Act – immediately upon becoming aware of the proposed acquisition or disposal. It should be noted that MFSA has the right to object to such an acquisition.
  - f. the provision of a related company loan, within 15 days of making the loan; provided that Licence Holder which falls under any one of the following categories need not comply with these requirements:
    - i. credit institutions licensed in terms of the Banking Act, 1994; or
    - ii. financial institutions licensed in terms of the Financial Institutions Act, 1994.

- g. any proposed material change to its business (whether that business constitutes licensable activity under the Act or not) – at least one month before the change is to take effect (where a new or amended Investment Services Licence is required, the new business shall not begin until the new Investment Services Licence has been granted or the amendment has been approved).
  - h. **any evidence of fraud or dishonesty by a member of the Licence Holder’s staff** immediately upon becoming aware of the matter.
  - i. a decision to make a material claim on any insurance policy held in relation to **the Licence Holder’s business. Notification** should be provided as soon as the decision is taken.
  - j. any actual or intended legal proceedings of a material nature by or against the Licence Holder immediately after the decision has been taken or on becoming aware of the matter.
  - k. any material changes in the information supplied to the MFSA – immediately upon becoming aware of the matter. This shall include the obligation to notify the MFSA on a continuous basis of any changes or circumstances which give rise to the existence of close links, as defined in Appendix 9, between the Licence Holder and any other person.
  - l. the fact, where applicable, that it has not provided any Investment Service or carried out any investment activity for the preceding six months, setting out the reasons for such inactivity and providing a business plan for future activity.
  - m. any other material information concerning the Licence Holder, its business or its staff in Malta or abroad – immediately upon becoming aware of the matter.
- 1.07 The Licence Holder shall obtain the written consent of the MFSA before:
- a. making any change to its share capital or the rights of its shareholders.
  - b. establishing a branch in Malta or abroad.
  - c. acquiring 10 per cent or more of the voting share capital of another company.
  - d. taking any steps to cease its Investment Services business.
  - e. agreeing to sell or merge the whole or any part of its undertaking.

- f. making an application to a Regulator abroad to undertake any form of licensable activity outside Malta.
- g. the appointment of a Director or Senior Manager responsible for the Investment Services business of the Licence Holder or of a Compliance Officer in terms of SLC 1.210(b) and/ or Money Laundering Reporting Officer in advance. The request for consent to the appointment shall be accompanied **by a Personal Questionnaire (“PQ”), in the form set out in Schedule F to Part A of these Rules – duly completed by the person proposed, which shall in the case of a proposed Compliance Officer and/ or Money Laundering Reporting Officer, include sufficient details of the individual’s background, training and/ or experience relevant to the post, to enable an adequate assessment by the MFSA.**

In the case of a proposed Compliance Officer and/or Money Laundering Reporting Officer, the request shall also be accompanied by the Competency Form set out in Schedule I to Part A of these Rules.

Where the person proposed had within the previous five years submitted a PQ to the MFSA, the request for consent need not be accompanied by a new PQ. In such instances, it shall be accompanied by a confirmation by the proposed person as to whether the information included in the PQ previously submitted is still current, and indicating any changes or up-dates thereto. This confirmation is to be countersigned by an authorised official of the Licence Holder, confirming that he/she has seen the said PQ.

**For the purposes of the above and (h) below, ‘Senior Manager’ should be interpreted as the person occupying the most senior role following that of Director, so that in the case where there are various management grades, it is the most senior manager who will require the MFSA’s authorisation.**

- h. the change in the responsibilities of a Director or Senior Manager in advance. The request for consent of the change in responsibilities of a Director or Senior Manager shall be accompanied by a PQ unless the individual concerned had within the previous three years submitted a PQ to the MFSA in connection with another role occupied by such individual with the same Custodian, in which case it shall be accompanied by a confirmation by the Director or Senior Manager as to whether the information included in the PQ previously submitted is still current, and indicating any changes or up-dates thereto.

A change in the responsibilities of a Director or Senior Manager should only be notified to the MFSA when such a change is material, which shall include a change in the status or seniority of the person concerned (upwards or downwards).

The request for authorisation shall include all relevant details in order to enable the MFSA to assess whether the persons concerned are sufficiently competent to undertake such activities. For this purpose, details of relevant experience, training and/or qualifications will be required. Applicants should also complete Sections 4, 5, 6 and 7 of the Application for an Investment Services Licence (Schedule A1 to Part A of these Rules).

- 1.08 The Licence Holder shall maintain sufficient records to be able to demonstrate compliance with the conditions of its Investment Services Licence.
- 1.09 The Licence Holder shall co-operate fully with any inspection or other enquiry, or compliance testing carried out by the MFSA, or an inspector acting on its behalf.
- 1.10 The Licence Holder shall pay promptly all amounts due to the MFSA.
- 1.11 The Licence Fee shall be payable by the Licence Holder on the day the Licence is first issued, and thereafter a supervisory fee will become due annually within one week from the anniversary of that date.
- 1.12 The Licence Holder shall notify the MFSA of any breach of the conditions of the Licence as soon as it becomes aware of the breach.
- 1.13 If so required by the MFSA, the Licence Holder shall do everything in its power to delay the cessation of its Investment Services business, or the winding-up of such business so as to comply with conditions imposed by the MFSA, in order to protect the interests of customers.
- 1.14 A request for a variation of a Licence by the Licence Holder shall be submitted to the MFSA in writing, giving details of the variation requested and the reasons thereof.

#### General Organisational Requirements

- 1.15 The Licence Holder shall:
  - a. establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;
  - b. ensure that its relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities;

- c. establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the Licence Holder;
- d. employ personnel with the skills, knowledge and expertise necessary for the discharge of responsibilities allocated to them;
- e. establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the Licence Holder;
- f. maintain adequate and orderly records of its business and internal organisation; and
- g. ensure that the performance of multiple functions by its relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly and professionally.

For these purposes, the Licence Holder shall take into account the nature, scale and complexity of its business, and the nature and range of Investment and Ancillary Services undertaken in the course of that business.

1.16 The Licence Holder shall establish, implement and maintain:

- a. systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question;
- b. an adequate business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, the preservation of essential data and functions and the maintenance of Investment Services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of its Investment Services and related activities;
- c. accounting policies and procedures that enable it to deliver in a timely manner to the MFSA upon request, financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules.

1.17 The Licence Holder shall monitor and, on a regular basis evaluate, the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with SLCs 1.15 and 1.16 above and take appropriate measures to address any deficiencies.



- 1.18 When entering into any and all outsourcing arrangements, the Licence Holder shall make reference to the [ESMA Guidelines on outsourcing to cloud service providers](#).

## Compliance

- 1.19 The Licence Holder shall establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by same to comply with its obligations under the Act, the Regulations issued thereunder and these Rules, as well as with its obligations under other applicable legislation, in particular the Prevention of Money Laundering Act, 1994, the Prevention of Financial Markets Abuse Act, 2005, and Regulations issued thereunder, as well as to detect the associated risks, and shall put in place adequate measures and procedures designed to minimize such risk and to enable the MFSA to exercise its powers effectively.

For this purpose the Licence Holder shall take into account the nature, scale and complexity of its business and the nature and range of Investment Services and activities undertaken in the course of that business.

- 1.20 The Licence Holder shall establish and maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:
- a. to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures implemented and the actions taken to address **any deficiencies in the Licence Holder's compliance with its obligations;**
  - b. to advise and assist the relevant persons responsible for carrying out **Investment Services and activities to comply with the Licence Holder's legal and regulatory obligations.**
- 1.21 In order to enable the compliance function to discharge its responsibilities properly, the Licence Holder shall ensure that the following conditions are satisfied:
- a. the compliance function shall have the necessary authority, resources, expertise and access to all relevant information;
  - b. a Compliance Officer shall be appointed and shall be responsible for the compliance function and for any reporting as to compliance required by these Rules;
  - c. the relevant persons involved in the compliance function shall not be involved in the performance of services or activities which they monitor;

- d. the method of determining the remuneration of the relevant persons involved in the compliance function shall not compromise their objectivity and shall not be likely to do so.

However, MFSA may exempt a Licence Holder from the requirements of points (c) or (d) if the Licence Holder is able to demonstrate to the satisfaction of the MFSA, that in view of the nature, scale and complexity of its business, and the nature and range of Investment Services and related activities, the requirement under that point is not proportionate and that its compliance function continues to be effective.

Moreover, with respect to (b) above, the appointment of an individual as Compliance

Officer, is subject to MFSA's prior approval. Such person may also act as the Licence Holder's Money Laundering Reporting Officer. Reference should be made to SLC 1.07(g) in this regard.

## Risk Management

- 1.22 The Licence Holder shall take the following actions with a view to manage its risks:
- a. establish, implement and maintain adequate risk management policies and procedures, which identify the risks relating to its activities, processes and systems, and where appropriate, set the level of risk tolerated by the Licence Holder. In so doing, the Licence Holder shall also adopt remuneration policies and practices that are consistent with and promote sound and effective risk management;
  - b. adopt effective arrangements, processes and mechanisms to manage the risks **relating to the Licence Holder's activities, processes** and systems, in light of that level of risk tolerance;
  - c. monitor the following:
    - i. **the adequacy and effectiveness of the Licence Holder's risk management policies and procedures;**
    - ii. the level of compliance by the Licence Holder and its relevant persons with the arrangements, processes and mechanisms adopted in accordance with point (b) above; and

- iii. the adequacy and effectiveness of measures taken to address any deficiencies in those arrangements and procedures, including failures by the relevant persons to comply with such arrangements or follow such procedures.

## Enforcement

- 1.23 The Licence Holder shall at all times observe the Licence Conditions which are applicable to it, as well as all the relative requirements which emanate from the Act and regulations issued thereunder. In terms of the Act, the MFSA has various sanctioning powers which may be used against the Licence Holder which does not comply with its regulatory obligations. Such powers include the right to impose administrative penalties.

## Complaints

- 1.24 The Licence Holder is required to establish, implement and maintain effective and transparent procedures for the reasonable and prompt handling of each complaint received from clients, and to keep a record of each complaint and the measures taken for its resolution. The Licence Holder is also required to inform eligible complainants in writing that they may refer their complaint to the Office of the Arbiter for Financial Services as established by the Arbiter for Financial Services Act, if they are not satisfied with the manner in which it has been handled by the Licence Holder.
- 1.25 Where a complaint has been lodged with the Arbiter for Financial Services and the case duly decided, the Licence Holder shall immediately provide the Authority with **a copy of the Arbiter's final decision. The Licence Holder shall also notify the Authority immediately in the event that an appeal from the decision of the arbiter is lodged by the complainant or by the Licence Holder itself, in terms of the Arbiter for Financial Services Act, and once such appeal has been decided, of the final decision of the Court.**

## 2. Financial Resources Requirements, Accounting and Record Keeping

### General

- 2.01 The Licence Holder shall at all times maintain own funds equal to or in excess of its **capital resources requirement. This shall constitute the Licence Holder's Financial Resources Requirement.**

Provided that the Licence Holder which is a credit institution licensed in terms of the Banking Act, 1994 or a branch established in Malta of a credit institution authorised in an EU Member State or EEA State, or of an overseas credit institution which is subject to prudential requirements at least equivalent to the requirements applicable to Maltese credit institutions, is not subject to the above-mentioned financial resources requirement and needs not prepare and submit any Interim or Annual Financial Return referred to in the SLCs which follow.

- 2.02 The meaning of own funds and the capital resources requirement applicable to **Custodians as well as the methodology for calculating a Licence Holder's satisfaction** of its Financial Resources Requirement, are set out in Appendix I to these Rules.
- 2.03 The Licence Holder shall comply with any further financial resources requirements set by the MFSA. If the MFSA so determines, the Licence Holder will be given due notice in writing of the additional financial resources requirements which shall be applied.
- 2.04 The Licence Holder shall immediately advise the MFSA if at any time it is in breach of its Financial Resources Requirement. In this case, the MFSA may, if the circumstances justify it, allow the Licence Holder a limited period within which to restore its financial resources to the required level.
- 2.05 The Licence Holder shall ensure compliance with this section of the Investment Services Rules for Investment Services Providers and Appendix 1 to these Rules. A Licence Holder which is found to be in breach of these requirements may be subject to regulatory action in terms of Article 104 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

#### Accounting / Record Keeping

- 2.06 The Licence Holder shall maintain proper accounting records to show and explain its own transactions, assets and liabilities.
- 2.07 The accounting records shall:
- a. disclose with reasonable accuracy, at all times, the financial position of the Licence Holder; and

- b. enable the financial statements required by the MFSA to be prepared within the time limits specified in the conditions of the Investment Services Licence.

2.08 In particular, the financial records shall contain:

- a. entries from day to day of all sums of money received and expended and the matters to which they relate;
- b. a record of all income and expenses, explaining their nature;
- c. a record of all assets and liabilities, including any guarantees, contingent liabilities or other financial commitments; and
- d. entries from day to day of all transactions on the Licence Holder's own account.

2.09 The Licence Holder shall retain accounting records for a minimum period of ten years. During the first two years they shall be kept in a place from which they can be produced within 24 hours of their being requested.

2.10 The Licence Holder shall agree with the MFSA its Accounting Reference Date (financial year end).

## Reporting Requirements

2.11 The Licence Holder shall have internal control mechanisms and administrative and accounting procedures which permit the verification of their compliance with these Rules as well as effective procedures for risk assessment and effective control and safeguard arrangements for information processing systems.

The Licence Holder shall in each year prepare an Annual Financial Return in the form set out in Appendix II signed by at least two directors or partners or any other persons authorised to sign by way of a Board Resolution. In the latter case, the Custodian is expected to provide a certified true copy of such Board Resolution to the MFSA.

2.12 The Annual Financial Return shall be submitted to the MFSA within one month of the Accounting Reference Date. In addition, the Annual Audited Financial Return shall be submitted to the MFSA within four months of the Accounting Reference Date.

2.13 Audited annual financial statements prepared in accordance with International Financial Reporting Standards, **together with a copy of the auditors' management letter and the auditors' report pursuant to SLC 2.27 shall be submitted to the MFSA within four months of the Accounting Reference Date.**

A Licence Holder which is also a credit institution in terms of the Banking Act, 1994 shall be required to submit to MFSA, together with its annual financial statements, a **separate note supported by an auditor's confirmation, disclosing the net revenue** derived from activities for which an investment services licence was issued to it, that is the gross revenue derived from such activities less any commissions that are directly related to the acquisition of the said gross revenue, paid or payable to third parties.

- 2.14 In addition to the Annual Financial Return and audited annual financial statements, Category 4 Licence Holders shall prepare an Interim Financial Return, in the form set out in Appendix II, at dates three, six and nine months after the Accounting Reference Date. The first Interim Financial Return should cover the three months immediately following the Accounting Reference Date, the second Interim Financial Return should cover the six months immediately following the Accounting Reference Date and the third Interim Financial Return should cover the nine months immediately following the Accounting Reference Date. In the event of a change to the Accounting Reference Date, the dates for the preparation of the Interim Financial Returns shall be agreed with the MFSA.
- 2.15 The Interim Financial Return shall be submitted to the MFSA within one month of the date up to which it has been prepared. It shall be signed by at least two directors or partners or any other persons authorised to sign by way of a Board Resolution. In the latter case, the Licence Holder is expected to provide a certified true copy of such Board Resolution to the MFSA.
- 2.16 The Licence Holder shall prepare and submit to the MFSA the Financial Return for Custodians in the form set out in Appendix 2D. The form should be filled in on a quarterly (calendar) basis and submitted to the MFSA within one month of the end of the relevant quarter to the following email address: [statistics@mfsa.com.mt](mailto:statistics@mfsa.com.mt).
- 2.17 The Licence Holder shall prepare and submit such additional financial returns as the MFSA may require.
- 2.18 The Licence Holder shall be responsible for the correct compilation of the Financial Returns. The nature and content of the financial returns shall be as follows:
- a. they shall be in the form set out in Appendix II;
  - b. they shall be in agreement with the underlying accounting records;
  - c. accounting policies shall be consistent with those adopted in the audited annual financial statements and shall be consistently applied. These accounting policies should adequately cater for the following:

- i. amounts in respect of items representing assets or income may not be offset against amounts in respect of items representing liabilities or expenditure, as the case may be, or vice versa, unless duly authorised by the MFSA; and
- ii. **balances representing clients' money and/ or assets held/ controlled by the**

**Licence Holder must not form part of the Licence Holder's Balance Sheet;**

- d. information to be included in the financial returns shall be prepared in accordance with International Financial Reporting Standards;
  - e. investments shall be included in the balance sheet at valuations arrived at in accordance with the provisions of International Financial Reporting Standards;
  - f. financial returns shall not be misleading as a result of the misrepresentation or omission or miscalculation of any material item;
  - g. where the Annual Financial Return has been submitted before the relevant audited annual financial statements have been produced it shall be updated to reflect the information in the audited annual financial statements and submitted to the MFSA together with the audited annual financial statements;
  - h. in the case of an individual or individuals in partnership or association, financial returns shall be prepared to show relevant figures for the Investment Services business exclusively. If required by the MFSA to do so, the individual (or individuals) shall submit, in addition, a statement of personal assets and liabilities.
- 2.19 If so notified in writing by the MFSA, the Licence Holder shall be required to prepare and submit additional financial information for the purposes of consolidated supervision.
- 2.20 The Licence Holder shall notify the MFSA immediately upon becoming aware:
- a. that it is in breach of the requirements in respect of financial resources, records, reporting or procedures and controls;
  - b. that it will be unable to submit an Annual or Interim Financial Return on the due date.

The notice shall give reasons and shall explain what action is being taken to rectify matters.

- 2.21 The Licence Holder shall notify the MFSA immediately if:
- a. it is notified that its auditor intends to qualify the audit report;
  - b. it becomes aware of actual or intended legal proceedings against it;
  - c. it decides to claim on a professional indemnity or other policy relating to its Investment Services business;
  - d. **the Licence Holder's counterparties in repurchase and reverse repurchase agreements or securities and commodities-lending and securities and commodities-borrowing transactions default on their obligations.**

#### Audit

- 2.22 The Licence Holder shall appoint an auditor approved by the MFSA. The Licence Holder shall **replace its auditor if requested to do so by the MFSA. The MFSA's consent shall be sought prior to the appointment or replacement of an auditor.**

The Licence Holder shall make available to its auditor the information and explanations he needs to discharge his responsibilities as an auditor and in order to meet the MFSA's requirements.

- 2.23 The Licence Holder shall not appoint an individual as an auditor, nor appoint an audit firm where the individual directly responsible for the audit, or his firm is:
- a. a director, partner, qualifying shareholder, officer, representative or employee of the Licence Holder;
  - b. a partner of, or in the employment of, any person in (a) above;
  - c. a spouse, civil partner, parent, step-parent, child, step-child or other close relative of any person in (a) above;
  - d. a person who is not otherwise independent of the Licence Holder;
  - e. person disqualified by the MFSA from acting as an auditor of a Licence Holder.

For this purpose, an auditor shall not be regarded as an officer or an employee of the Licence Holder solely by reason of being auditor of that Custodian.



- 2.24 The Licence Holder shall obtain from its auditor a signed letter of engagement defining clearly the extent of the auditor's responsibilities and the terms of his appointment. The Licence Holder shall confirm in writing to its auditor its agreement to the terms in the letter of engagement. The auditor shall provide the MFSA with a letter of confirmation in the form set out in Annex II to the Application Form for an Investment Services Licence.
- 2.25 The letter of engagement shall include terms requiring the auditor:
- a. to provide such information or verification to the MFSA as the MFSA may request;
  - b. to afford another auditor all such assistance as he may require;
  - c. to vacate his office if he becomes disqualified to act as auditor for any reason;
  - d. if he resigns, or is removed or not reappointed, to advise the MFSA of that fact and of the reasons for his ceasing to hold office. The auditor shall also be required to advise the MFSA if there are matters he considers should be brought to the attention of the MFSA;
  - e. in accordance with article 18 of the Act, to report immediately to the MFSA any fact or decision of which he becomes aware in his capacity as auditor of the Licence Holder which:
    - i. is likely to lead to a serious qualification or refusal of his audit report on the accounts of the Licence Holder; or
    - ii. constitutes or is likely to constitute a material breach of the legal and regulatory requirements applicable to the Licence Holder in or under the Act; or
    - iii. gravely impairs the ability of the Licence Holder to continue as a going concern; or
    - iv. relates to any other matter which has been prescribed.
  - f. in accordance with article 18 of the Act, to report to the MFSA any facts or decision as specified in (e) above of any person having close links, as defined in Appendix 9, with the Licence Holder, of which the auditor becomes aware in his capacity as auditor of the Licence Holder or of the person having such close links.

- 2.26 If at any time the Licence Holder fails to have an auditor in office for a period exceeding four weeks the MFSA shall be entitled to appoint a person to fill the vacancy; the fees and charges so incurred being payable by the Licence Holder.
- 2.27 In respect of each annual accounting period, the Licence Holder shall require its auditor to prepare a management letter in accordance with International Standards on Auditing. The auditor must also confirm to the MFSA that the audit has been conducted in accordance with International Standards on Auditing and whether, in the auditor's opinion:
- a. the Annual Financial Return together with the audited annual financial statements are in agreement with the Licence Holder's accounting records;
  - b. the Annual Financial Return has been prepared in accordance with the MFSA's requirements and is consistent with the audited annual financial statements;
  - c. the Licence Holder's Financial Resources have been properly calculated in accordance with the MFSA's requirements and **exceed the Licence Holder's Financial Resources Requirement as at the Accounting Reference Date;**
  - d. proper accounting records have been kept, and adequate systems for their control have been maintained, as required by the MFSA, during the period covered by the Annual Financial Return;
  - e. the Licence Holder has, either:
    - i. **maintained throughout the period covered by the Annual Financial Return, systems adequate to safeguard Customers' Assets and Clients' Money; or**
    - ii. based on review procedures performed, nothing has come to the auditor's attention that causes the auditor to believe that the **Licence Holder held Customers' Assets or Clients' Money during the period covered by the Annual Financial Return.**
  - f. all information and explanations necessary for the purpose of the audit have been obtained.
- 2.28 Where, in the auditor's opinion, one or more of the requirements have not been met, the auditor shall be required to include in his report a statement specifying the relevant requirements and the respects in which they have not been met. Where the auditor is unable to form an opinion as to whether the requirements have been met,

the auditor shall be required to specify the relevant requirements and the reasons why he has been unable to form an opinion.

2.29 The Licence Holder in receipt of a management letter from its auditor which contains recommendations to remedy any weaknesses identified during the course of the audit, is required to submit to the MFSA by not later than six months from the end of the financial period to which the management letter relates, a statement setting out **in detail the manner in which the auditor's recommendations have been/are being implemented**. In the instance where the Licence Holder has not taken/is not taking **any action in respect of any one or more recommendations in the auditor's management letter**, the reasons are to be included.

2.30 The Licence Holder is required to include in the Directors' Report (which should form part of the annual report to members of the company), a statement regarding breaches of SLCs or other regulatory requirements which occurred during the reporting period, and which were subject to an administrative penalty or other regulatory sanction.

Where there have been no breaches, it is sufficient merely to say so. However, if there have been breaches, a summary must be provided of the breach(es) committed and regulatory sanction imposed.

## Capital Resources Requirements

### *Conditions for Category 4a Licence Holders*

2.31. A Category 4a Licence Holder shall apply the requirements set out in Rules R2-3.2.1, Points (x), (xi), (xvii), (xviii) and (xix) of R4-1.2.1, R4-2.4.1, R4-3.2.1 to R4-3.2.6, R43.2.8, R4-4.3.4 to R4-4.3.6, R4-5.2.3, Points (iii), (iv) and (v) of R4-5.3.1, R4-5.3.8, R4-5.3.9 and Sections 3, 4 and 5 of Title 5 of Chapter 4 of Part BI as well as Appendix IB of these Investment Services Rules for the maintenance and reporting of capital resources.

### *Conditions applicable to Licence Holders engaging in foreign currency lending*

2.32. The Licence Holder shall, in as far as these may be applicable to any foreign currency lending which it may carry out, abide by the high level principles on foreign currency lending as outlined in MFSA Rule 1 of 2012 on foreign currency lending which is modelled on the Recommendation of the European Systemic Risk Board on lending in foreign currencies (ESRB/2011/1).

2.33. Foreign currency lending means lending in any currency other than the legal tender of the country in which the borrower is domiciled. This includes situations where the

Euro is the foreign currency due to the borrower's domicile being outside the euro zone.

- 2.34. When the Licence Holder has engaged in any form of foreign currency lending during the period under review, it shall submit a confirmation to this effect together with its Annual Financial Return. Any foreign currency lending activity shall be indicated as a percentage of its total lending. A Licence Holder which has not carried out any foreign currency lending during the period under review is not required to submit a 'nil' return.

#### Transparency provisions

- 2.35. This Section shall apply to Licence Holders acting as shareholders intermediary as defined in the Glossary in respect of Collective Investment Schemes, which invest on behalf of an institutional investor, as defined in the Glossary, in shares of companies which have their registered office in a Member State and the shares of which are admitted to trading on a regulated market situated or operating within a Member State.
- 2.36. When the Licence Holder is engaged in shareholder identification and/or is involved in the transmission of information, including the transmission of information along the chain of intermediaries and/or facilitate the exercise of shareholders rights, the Licence Holder shall comply with the provisions of the [Commission Implementing Regulation \(EU\) 2018/1212](#) in its entirety.

#### *Identification of shareholders*

- 2.37. On the request of the listed company or of a third-party nominated by the listed company, the Licence Holder shall communicate, without delay to the listed company the information regarding shareholder identity.
- 2.38. Where there is more than one shareholders intermediary in a chain of intermediaries, the request of the listed company, or of a third-party nominated by the listed company, is transmitted between intermediaries without delay and that the information regarding shareholder identity is transmitted directly to the listed company or to a third-party nominated by the company without delay by the intermediary who holds the requested information.
- 2.39. At the request of the listed company, or of a third party nominated by the company, the Licence Holder shall communicate to the company without delay the details of the next intermediary in the chain of intermediaries.

- 2.40. A Licence Holder that discloses information regarding shareholder identity in accordance with the rules laid down in this Section shall not be in breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision.

*Transmission of information*

- 2.41. A Licence Holder is required to transmit the following information, without delay, from the listed company to the shareholder or to a third-party nominated by the shareholder:
- i. the information which the listed company is required to provide to the shareholder to enable the shareholder to exercise rights flowing from its shares, and which is directed to all shareholders in shares of that class; or
  - ii. where the information referred to in point (i) is available to shareholders on the website of the listed company, a notice indicating where on the website that information can be found.

The requirement referred to in the first paragraph of this SLC shall not apply where the information referred to in point (i) or the notice referred to in point (ii) is transmitted or provided by the listed companies directly to all their shareholders or to a third party nominated by the shareholder.

- 2.42. The Licence Holder shall transmit, without delay, to the listed company, in accordance with the instructions received from the shareholders, the information received from the shareholders related to the exercise of the rights flowing from their shares.
- 2.43. Where there is more than one shareholders intermediary in a chain of intermediaries, information referred to in SLC 2.42 shall be transmitted between shareholder intermediaries without delay, unless the information can be directly transmitted by the shareholders intermediary to the listed company or to the shareholder or to a third-party nominated by the shareholder.

*Facilitation of the exercise of shareholder rights*

- 2.44. The Licence Holder shall facilitate the exercise of the rights by the shareholder, including the right to participate and vote in general meetings, which shall comprise at least one of the following:
- i. it makes the necessary arrangements for the shareholder or a third party nominated by the shareholder to be able to exercise themselves the rights;

- ii. it exercises the rights flowing from the shares upon the explicit authorisation and instruction of the shareholder and for the shareholder's benefit.
- 2.45. Where the Licence Holder receives confirmation of receipt of the votes, it shall transmit it without delay to the shareholder or a third-party nominated by the shareholder.
- 2.46. Where there is more than one shareholders intermediary in the chain of intermediaries, the confirmation shall be transmitted between intermediaries without delay, unless the confirmation can be directly transmitted to the shareholder or a third-party nominated by the shareholder.
- 2.47. When votes are cast electronically an electronic confirmation of receipt of the votes is sent to the person that casts the vote.
- 2.48. Provided that after the general meeting the shareholder or a third-party nominated by the shareholder can obtain, at least upon request, confirmation that their votes have been validly recorded and counted by the listed company, unless that information is already available to them.

*Non-discrimination, proportionality and transparency of costs*

- 2.49. Licence Holders acting as shareholders intermediaries shall disclose publicly any applicable charges for services provided for under this Section separately for each service.
- 2.50. Any charges levied by a Licence Holder on shareholders, companies and other shareholders intermediaries shall be non-discriminatory and proportionate in relation to the actual costs incurred for delivering the services. Any differences between the charges levied between domestic and cross-border exercise of rights shall be permitted only where duly justified and where they reflect variation in actual costs incurred for delivering the services.

3. Supplementary Conditions applicable to a Custodian of a UCITS Scheme

The Supplementary Conditions prescribed in this section shall apply where the Licence Holder proposes to act as a Custodian of a UCITS Scheme which is third-party managed or self-managed.

3.01. The Licence Holder shall have the business organisation, systems, and appropriate expertise and experience deemed necessary by the MFSA for it to carry out its functions.

Neither the Licence Holder nor any of its associates shall deal with the Scheme as a Principal unless the terms of the transaction or arrangement **are on an arm's length** basis.

3.02. The Licence Holder shall, where applicable, supervise the operation of a Scheme to ensure that the Manager complies with the investment restrictions of the Scheme.

3.03. The Licence Holder shall enquire into the conduct of the Manager or the Scheme in each annual accounting period and report thereon to the holders of Units in **accordance with MFSA's requirements, if any, applicable to the Scheme and with any** applicable provisions of its Agreement with the Scheme or (in the case of a Scheme constituted as a Unit Trust or Common Contractual Fund) its Manager.

3.04. The Licence Holder shall not enter into a contract for the sale of assets when such assets are not in the ownership of the Scheme.

3.05. When servicing a Scheme formed in accordance with or existing under the laws of Malta duly licensed by the MFSA, the Custodian shall:

- a. advise the MFSA if the value of the Scheme falls below EUR 2.33 million; and
- b. **notify the MFSA of any breach of the Scheme's Licence Conditions or of any of the provisions of the Constitutional Documents of the Scheme as soon it becomes aware of the breach.**

3.06. The Licence Holder shall comply with the requirements laid out in the Investment Services Act (Custodians of Collective Investment Schemes) Regulations, as may be amended from time to time.

3.07. When the Licence Holder is servicing either a merging UCITS or a receiving UCITS, the Licence Holder shall verify:

- a. the identification of the type of merger and the UCITS involved;
  - b. the planned effective date of the merger; and
  - c. the rules applicable, respectively, to the transfer of assets and the exchange of units with the requirements of the UCITS Directive and the fund rules or instruments of incorporation of their respective UCITS.
- 3.08. Where the UCITS has appointed a management company, which is not licensed in Malta to provide it with investment management services then the Licence Holder shall enter into an information agreement with such management company as may have been appointed by the UCITS, to regulate the flow of information deemed necessary to allow it to perform the functions set out in Article 32 of the UCITS Directive and in other regulatory requirements applicable to Custodians in Malta.
- 3.09. The information agreement referred to in SLC 3.08 above shall provide for the following:
- a. A description of the procedures including those related to the safe-keeping, to be adopted for each type of asset of the UCITS entrusted to the Licence Holder;
  - b. A description of the procedures to be followed where the management company envisages a modification of the scheme rules or prospectus of the UCITS, and identifying when the Licence Holder should be informed, or where a prior agreement with the Licence Holder is needed to proceed with the modification;
  - c. A description of the means and procedures by which the Licence Holder will transmit to the management company all relevant information that the latter needs to perform its duties including a description of the means and procedures related to the exercise of any rights attached to financial instruments, and the means and procedures applied in order to allow the management company and the UCITS to have timely and accurate access to information relating to the accounts of the UCITS;
  - d. a description of the means and procedures by which the Licence Holder will have access to all relevant information it needs to perform its duties;
  - e. A description of the procedures by which the Licence Holder has the ability to enquire into the conduct of the management company and to assess the quality of information transmitted, including by way of on-site visits;



- f. A description of the procedures by which the management company can review the performance of the Licence Holder in respect of its contractual obligations.
- 3.10. The details referred to in SLC 3.09 (c) and (d) may be included either in the information agreement or in a separate written agreement.
- 3.11. In addition to the information provided for in SLC 3.09, the information agreement shall also provide for:
- a. the conditions under which the agreement may be amended or terminated;
  - b. the conditions which are necessary to facilitate transition to another Custodian and, in case of such transition the procedure by which the Licence Holder shall send all relevant information to the appointed Custodian;
  - c. the confidentiality obligations applicable to the parties to the agreement which shall be subject to the ability of either the MFSA or the European **regulatory authorities of the management company's home Member State** or EEA State where the management company is a European management company in gaining access to relevant documents and information;
  - d. a list of all the information that needs to be exchanged between the UCITS, its management company and the Licence Holder related to the subscription, redemption, issue, cancellation and repurchase of units of the UCITS;
  - e. information on the tasks and responsibilities of the parties to the agreement in respect of obligations relating to the prevention of money laundering and the financing of terrorism, where applicable;
  - f. the period of validity of the agreement.
- 3.12. Where either the Licence Holder or the management company have appointed third parties in order to carry out their duties, the information agreement shall also provide for the following:
- a. an undertaking by the relevant third parties to the agreement to provide details, on a regular basis, of any third parties appointed by the Custodian of a Maltese UCITS or the manager to carry out their respective duties;
  - b. an undertaking that, upon request by one of the parties, the other party will provide information on the criteria used for selecting the third party and the steps taken to monitor the activities carried out by the selected third party;

- c. a statement that the liability of the Licence Holder shall not be affected by the fact that it has entrusted to a third party all or some of the assets in its safekeeping.
- 3.13. Where the Manager appointed by the UCITS has been appointed as Manager for other UCITS, the information agreement may also provide for such other UCITS. In such cases the agreement shall list the UCITS covered.
- 3.14. In cases where the parties to the agreement agree to the use of electronic transmission for part or all of the information that flows between them, the agreement shall contain provisions ensuring that a record is kept of such information.
- 3.15. The information agreement shall be regulated by Maltese Law.
- 3.16. A Licence Holder which is a custodian of a Maltese UCITS which is a master UCITS must conform to the Investment Services Rules for Retail Collective Investment Schemes on Feeder and Master UCITS.
- 3.17. A Licence Holder which a Custodian of a Maltese UCITS, the latter being a master UCITS, shall immediately inform the MFSA, the feeder UCITS and the custodian of the feeder UCITS about any irregularities it detects with regard to the Maltese UCITS which is a master UCITS which are deemed to have a negative impact on the feeder UCITS.
- 3.18. The irregularities referred to in SLC 3.17 which the Custodian of a Maltese UCITS which is a master UCITS detects in the course of carrying out its functions and which may have a negative impact on the feeder UCITS shall include, but are not limited to:
- a. errors in the net asset value calculation of the Maltese UCITS which is a master UCITS;
  - b. errors in transactions for or settlements of the purchase, subscription or request to repurchases or redeem units in the Maltese UCITS which is a master UCITS undertaken by the feeder UCITS;
  - c. errors in the payment or capitalisation of income arising from the Maltese UCITS which is a master UCITS, or in the calculation of any related withholding tax;
  - d. breaches of the investment objectives policy or strategy of the Maltese UCITS which is a master UCITS, as described in its fund rules or instrument of incorporation, Prospectus or Key Investor Information document.

- e. breaches of investment and borrowing limits set out in the law or in the scheme rules, instruments of incorporation, prospectus or Key Investor Information document.