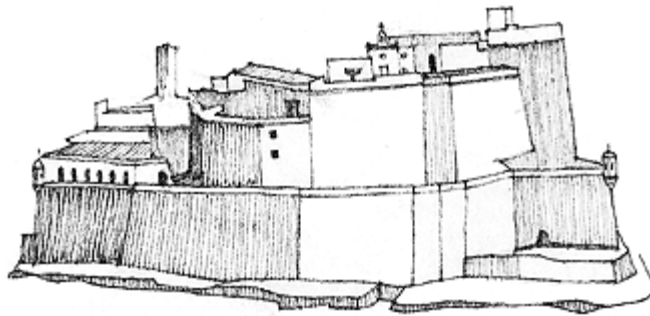


Guide to BackOffice Administration for the Financial Services Sector



Fort St. Angelo, Malta

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

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The Guide to Back Office Administration in the Financial Services Sector is designed to provide an overview of the regime that applies in Malta.

This guide does not purport to provide more than an overview. Readers interested in obtaining more information about the back office administration in Malta or about any related topic are invited to make contact with the Malta Financial Services Authority (MFSA).

WHY BACK OFFICE – WHY MALTA?

Back office services include routine administrative and clerical services in relation to or in support of any type of business or professional activity. Qualifying activities may include the processing and recording of invoices, sales transactions, and accounts management information reporting. Any routine or administrative tasks that are carried out in support of any business or professional activity pertaining to a financial services concern may be hived off or out-sourced in a way as to qualify as a back office activity as required by the MFSA. Financial services activities include banking, insurance and investment services.

On the other hand, excluded from the back office definition are all those professional and business activities which would in terms of Maltese law be subject to specific regulatory licensing and control. These would include the core duties of a fund manager, insurance manager or a bank. The core activities of these regulated persons would normally be subject to special authorisation.

However, the administration support needs of these licensable categories of persons overseas may be provided through a back office operation established in Malta. The Maltese authorities encourage the setting up of foreign operations that offer back office administration and support services to other foreign enterprises.

Malta is in a good position to encourage operations of this nature because of the availability of a well-educated workforce, a high number of professionally qualified and trained personnel, coupled with the excellent telecommunication facilities and air links. Added important advantages are the very moderate and comparatively low office and employment costs.

The availability of qualified and competent staff is absolutely vital for a back office operation to flourish. The four hundred year old Malta University and a number of other higher educational establishments annually produce a significant number of motivated students trained in modern disciplines such as computer studies and information technology, marketing, communications, law, accountancy, management, financial services and a host of other related fields of study.

The Maltese labour force has always been recognised for its flexibility, competence and work ethic. Apart from fluency in English, which is one of the Island's national languages most Maltese enjoy a reasonable working knowledge of other European languages primarily Italian with French and German becoming increasingly popular.

There are no restrictions on the ownership of a back office operation. It may be owned exclusively by local or foreign interests, or jointly by both. A foreign company may choose to contract out its back office administration either to a Maltese subsidiary set up for this purpose or to a Maltese-owned company capable of offering these specialised services. In the latter case the services may be offered either on some form of exclusivity basis to the foreign company or may also be offered to as many foreign entities as the local service provider can reasonably cope with.

A basic qualifying condition required is that the back office service has to be provided to non-resident clients from an office set up in Malta. In order to retain this status, the company would therefore not be in a position to supply its services to local companies or to other local commercial or professional undertakings.

Subject to the above, there are no restrictions regarding the nature or nationality of the non-resident beneficiaries or recipients of the back office services. These may even consist of one or more undertakings involved in different activities and which may or may not have any ownership relationship with the back-office operation. In this sense the local back office base can offer itself as a centralised, cost-saving and flexible shared-services facility servicing a variety of needs of different clients located in one or more countries other than Malta.

SETTING UP A BACK OFFICE IN MALTA

SUMMARY

- back office services should consist of routine administration, book keeping and accounting services (excluding work which requires a warrant under the Accountancy Profession Act), information and data processing, computer bureau, database and computer outsourcing, but may not include any activity or service which requires a warrant, licence or other authorisation (other than a police or trading licence) under any law in Malta;
- the company's activities in Malta are to consist solely in the rendering of back office services to licensed financial services operators;
- the services are to be provided from premises in Malta;

THE REQUIREMENTS

An application to carry out back office services has to be submitted to the Malta Financial Services Authority. The application is to include the following:

- (1) the back office services to be rendered in Malta to clients and to companies not resident in Malta;
- (2) relevant information on the applicant company, Memorandum and Articles of Association, financial statements and company profile if available, information on the directors, shareholders/beneficiaries and satisfactory references;
- (3) a business plan and financial projections;
- (4) relevant information on clients or companies receiving the services;
- (5) information on the premises in Malta from where the services will be rendered details on the estimated number of persons to be employed and on any work permits required.

INDICATIVE OPERATIONAL COSTS

OFFICE ACCOMMODATION AND COSTS

Malta's geographical location and well-established educational and legal structures make it an attractive and convenient services centre in the middle of the Mediterranean. It offers the attractiveness and quality of a Mediterranean life style, coupled with low cost of property.

There is a good supply of commercial property for purchase or rental. Costs tend to be lower than in most other jurisdictions. Although different costs may apply depending on location and the specification of the office layout, an indication of the average costs for air-conditioned, unfurnished office accommodation is as follows:

| | Prime Business Area | Peripheral Area |
|---|---------------------|-----------------|
| Purchase | €3500 | €2300 |
| Rental (Monthly) | €100 - €150 | €50 - €100 |
| <i>Cost in Euros (€) per square meter</i> | | |

SALARIES AND EMPLOYMENT COSTS

An indication of annual salaries in selected occupations in the private sector in Malta (excluding fringe benefits such as company vehicle, allowances, etc.) is provided in the table below:

| | <u>Euros</u> € |
|----------------------------------|-------------------|
| General Manager | 60,000 – 70,000 |
| Financial Controller | 40,000 – 50,000 |
| Administration Manager | 20,000 – 30,000 |
| Operations Manager | 30,000 – 40,000 |
| Accountant | 20,000 – 30,000 |
| Computer Programmers | 15,000 – 25,000 |
| Executive Secretary | 15,000 – 20,000 |
| Office Clerk/Secretary | 10,000 – 15,000 |
| Receptionist/ Telephone Operator | 10,000 – 12,000 |

Incidental labour expenses paid by employer:

National Insurance Contribution:

- 10% of the employees' wage for a weekly pay ranging between €126.41 and €304.47
- €72.61 (approximately) of the employees' wage for a weekly pay which exceeds €304.47

Quarterly bonus amounts to €121 each (approximately) and the half yearly bonus amounts to €135 (approximately). Overtime rates are paid at 1.5% of basic pay. On Saturdays and Sundays overtime is paid at double the pay whereas on Public Holidays overtime rates are paid at triple the pay.

COMPANY REGISTRATION FEES

The fees payable to the Registrar of Companies for the registration of a company are calculated according to the company's authorised share capital as indicated in the table below. Registration can be made either in paper format or in electronic format and the fees levied vary accordingly:

| Authorised Share Capital | Registration in Paper Format: Fee Payable | Registration in Electronic Format: Fee Payable |
|--|--|---|
| Up to €1,500 | €245 | €210 |
| Over €1,500 but not exceeding €5,000 | €245 with the addition of €15 for each €500 or part thereof in excess of €1,500 | €210 with the addition of €12 for each €500 or part thereof in excess of €1,500 |
| Over €5,000 but not exceeding €10,000 | €350 with the addition of €20 for each €1,000 or part thereof in excess of €5,000 | €294 with the addition of €17 for each €1,000 or part thereof in excess of €5,000 |
| Over €10,000 but not exceeding €50,000 | €450 with the addition of €20 for each €2,500 or part thereof in excess of €10,000 | €379 with the addition of €17 for each €2,500 or part thereof in excess of €10,000 |
| Over €50,000 but not exceeding €100,000 | €770 with the addition of €20 for each €10,000 or part thereof in excess of €50,000 | €651 with the addition of €17 for each €10,000 or part thereof in excess of €50,000 |
| Over €100,000 but not exceeding €250,000 | €870 with the addition of €10 for each €15,000 or part thereof in excess of €100,000 | €736 with the addition of €8 for each €15,000 or part thereof in excess of €100,000 |
| Over €250,000 but not exceeding €500,000 | €970 with the addition of €10 for each €10,000 or part thereof in excess of €250,000 | €816 with the addition of €8 for each €10,000 or part thereof in excess of €250,000 |
| Over €500,000 but not exceeding €1,000,000 | €1,220 with the addition of €20 for each €20,000 or part thereof in excess of €500,000 | €1,016 with the addition of €17 for each €20,000 or part thereof in excess of €500,000 |
| Over €1,000,000 but not exceeding €2,500,000 | €1,720 with the addition of €10 for each €50,000 or part thereof in excess of €1,000,000 | €1,441 with the addition of €8 for each €50,000 or part thereof in excess of €1,000,000 |
| Over €2,500,000 | €2,250 | €1,900 |

If a company subsequently increases its authorised share capital, the difference in registration fees would be levied.

BACK OFFICE ADMINISTRATION IN THE FINANCIAL SERVICES SECTOR

GENERAL PROVISIONS

The MFSA is responsible for coordinating and promoting the financial services industry in Malta. Accordingly, the MFSA is responsible for the vetting and processing of applications for the establishment of companies providing back office services to the financial services industry.

This approach enables the MFSA to ensure that the proposed activity would not require a license under any of the current regulatory legislation. It should also enable applications to be dealt with more expediently.

Through its role as the supervisory authority over the banking sector, the insurance industry and fund administration, the MFSA will distinguish between activities that may be designated as routine back office work from higher value activities constituting the specialised core business of insurance and fund administration. Applicants are expected to identify precisely what administrative tasks are to be undertaken by a Malta based back office operation.

The MFSA reserves the right to carry out compliance visits in order to ensure adherence with all applicable laws and requirements.

BACK OFFICE ADMINISTRATION FOR COLLECTIVE INVESTMENT SCHEMES

Administrative services which do not themselves constitute licensable activity under the Investment Services Act require MFSA's recognition in terms of Section 9A of the Act and the Investment Services Rules issued by the MFSA.

The MFSA considers that administrative services include the following activities:

- Preparation of Net Asset Value
- Reconciliations
- Pricing the Investment Portfolio
- Payment of Bills
- Preparation of Financial Statements
- Fund Accounting
- Performance Reporting
- Compliance Reporting
- Preparation of Contract Notes
- Other activities considered to be of a similar nature by the MFSA

A request for recognition should be supported by a description of the administrative services to be provided and details as to whom such administrative services will be provided. The applicant must also provide a number of documents as listed in the Rules and pay an application fee of €3,000.

The documentation that a recognised fund administrator is required to the MFSA on a regular basis within six months from its financial year end is the following:

- a copy of its annual audited financial statements; and
- a report from its auditor to the MFSA, confirming whether in its opinion and further to the information available to it during the course of its audit, the administrator's activities were

during the relevant accounting period, restricted to fund administration and did not involve licensable activity in terms of the Act.

Upon receipt of recognition from the MFSA, and annually thereafter, the recognized administrator shall pay the MFSA a recognition fee of €1,200.

A recognised administrator shall ensure that proper accounting and other records are at all times retained at its premises to show and explain the transactions it carries out and the nature of its services and to make such records available to the MFSA.

The MFSA may, whenever it deems it necessary or expedient undertake compliance visits to the premises from which the administrative services are rendered.

Persons in possession of a licence under the Financial Institutions Act, 1994 or the Banking Act, 1994 and persons in possession of a licence under the Investment Services Act, shall be exempt from the requirement to acquire recognition in terms of the above procedure, subject to notification to the MFSA.

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