

03 April 2019

Revisions made to Conduct of Business Rulebook

Reference is made to the Conduct of Business Rulebook ('Rulebook') originally issued by the Malta Financial Services Authority ('the Authority') on 20th December 2017. The Authority is hereby publishing an updated version of the Rulebook which can be found on the Authority's website and accessed [here](#).

The changes carried out to the Rulebook are the following:

[1] PRIIPs Regulation

For the purposes of legal certainty and in order to follow on the approach the Authority has taken of publishing a single Rulebook for industry participants, the Authority has decided to incorporate in the Rulebook the rules on key information document emanating from [Regulation \(EU\) No 1286/2014](#) (otherwise referred to as 'PRIIPs Regulation') and [Commission Delegated Regulation \(EU\) 2017/653](#) supplementing the PRIIPs Regulation by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

To this effect, a new section has been included in Chapter 1 (Disclosures) of the Rulebook incorporating the relevant rules which apply to Regulated Persons when they manufacture and/or offer packaged retail and insurance-based investment products to retail clients. Furthermore, Appendices 2 to 8 have been added to Chapter 1 reflecting faithfully the requirements of the PRIIPs Regulation.

[2] Requirements for Cross-Selling Practices Applicable to the Securities Sector

Furthermore, new requirements were included in Part B of Chapter 1 reflecting the requirements of ESMA Guidelines on cross-selling practices. These requirements apply in cases where Regulated Persons offer an investment service together with another service or product as part of a package or as a condition for the same agreement or package. These requirements shall only apply to investment firms, credit institutions when providing investment services and management companies when providing services in terms of Article 6(3) of UCITS Directive. Consequently, the following changes were affected to the Rulebook:

- i. Rules 1.4.81 to 1.4.89 in Part B of Chapter 1 (Disclosures) now refer to the full disclosure and timely information requirements which the Regulated Persons are required to provide relating to the price, cost, non-price features and risks of the tied or bundled package;
- ii. Rule 2.107 has been inserted in Part B of Chapter 2 (Financial Product Governance) requiring Regulated Persons to provide training to their staff responsible for distributing tied or bundled packages;

- iii. Rule 3.48 now refers to the Regulated Person's obligations to avoid conflicts of interest in the remuneration structures of sales staff. An Appendix has been added to the chapter providing a non-exhaustive list of scenarios of detrimental cross-selling practices;
- iv. Rules 4.5.11 and 4.5.12 on post-sale cancellation rights were included in Part B, Section 5 of Chapter 4 (Sales Processes and Selling Practices).

[3] Definitions/Glossary Section

The Definitions/Glossary section has been amended in line with the requirements of MiFID II to remove the requirement that any reference to a 'distributor' should be construed to refer to Regulated Persons who intend to distribute a product or a structured deposit to clients residing in Malta. The definition of "Cross-selling practice" has been amended to refer to the offering of an investment service together with another service or product as part of a package or as a condition for the same agreement or package. Furthermore, definitions of "PRIIP Manufacturer", "Bundled package", "Tied package" and "Component product" were included in the Glossary section.

[4] Other Changes

- i. The requirement in Rule 1.4.98 (which now reads R.1.4.110) has been amended to apply to life insurance contracts.
- ii. For clarification purposes, Rules 2.99 to 2.106 were grouped under a separate section applying to distributors when carrying out distribution activities to all clients.

Summary of Amendments

The below table summarises the amendments made:

Part/Section/Chapter	Amendment
'Distributor' in Definition/Glossary Section	-Requirement that any reference to 'distributor' should be interpreted to refer to Regulated Persons who intend to distribute a product or a structured deposit to clients residing in Malta, was removed. -New definitions added for the following terms: "PRIIP Manufacturer," "Bundled package", "Tied package" and "Component product".
Part B, Chapter 1	-Rules 1.6.1 to 1.6.66 added in a new section providing requirements for the relevant Regulated Persons to follow when they manufacture and/or offer packaged retail and insurance-based investment products to retail clients.

	<p>-Rules 1.4.81 to 1.4.89 now refer to requirements applicable to Regulated Persons distributing tied or bundled packages.</p> <p>-Requirement of Rule 1.4.98 (now reads 1.4.110) amended to apply to life insurance contracts.</p> <p>-Appendices 2 to 8 added to Chapter 1 reflecting Annexes I to VII of the PRIIPs Regulation.</p>
Part B, Chapter 2	<p>-Rule 2.107 inserted relating to training requirements the Regulated Persons are required to abide by.</p> <p>-Rules 2.99 to 2.106 were grouped under a separate section applying to distributors when carrying out distribution activities to all clients.</p>
Part B, Chapter 3	<p>-Rule 3.48 inserted to refer to Regulated Person's obligations to avoid conflicts of interest in its remuneration structures of sales personnel.</p> <p>-A new Appendix 1 was added to Chapter 3 providing a non-exhaustive list of cases of detrimental cross-selling practices.</p>
Part B, Section 5, Chapter 4	<p>-Rules 4.5.11 and 4.5.12 were added providing for post-sale cancellation rights.</p>

Contacts

Any queries or requests for clarifications on the contents of this Circular should be addressed to the Conduct Supervision on financialpromotion@mfsa.com.mt.