

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Consultation document on the proposed amendments to Listing Authority policies published on 16th August 2010

[1.0 Introduction]

On 16th August 2010, the Malta Financial Services Authority, acting as the Listing Authority (“the Authority”) published two policies applicable to bond issues targeted to local retail market. These policies are i) the requirement to set up a Sinking Fund and ii) the requirement to report on the financial soundness of an issuer. As already indicated by the Authority in the consultation document of the 5th July 2010, the objective of these policies is to safeguard the interests of the local retail investors.

Since the publication of these policies, the Authority has been approached by several interested parties including prospective applicants and stockbrokers for guidance on the applicability of these policies.

In response to these queries the Authority is proposing amendments to the policies as follows:

1. The introduction of **an exemption from the requirement of having a Sinking Fund and the Financial Soundness Report** for bond issues where the minimum subscription amount is at least €50,000 per individual investor and where subsequent trading takes place only in multiples of €50,000 per individual investor. Where a person is subscribing for securities on behalf of third parties, the minimum amount shall apply to each underlying beneficial owner. Furthermore for the exemption to apply, an issuer cannot use any form of advertising or promotional activity to invite or induce the general public to subscribe for or otherwise acquire these type of debt securities.

After considering the local market trends, the Listing Authority feels that an investor affording a minimum investment and a subsequent trading threshold of €50,000 should not be considered as a retail investor and therefore a bond issue targeted to such investors should be exempt from the applicability of these policies.

2. The introduction of **an exemption from the applicability of the policy on the preparation of a financial soundness report** for bond issues which satisfy the following criteria:
 - (i) the minimum subscription amount is at least €10,000 per individual investor with subsequent trading taking place only in multiples of €10,000 per individual investor. Where a person is subscribing for securities on behalf of third parties, the minimum amount shall apply to each underlying beneficial owner; **and**
 - (ii) the bond issue is directed to investors having the necessary expertise, experience and knowledge to be in a position to make their own investment decisions and to understand the risks involved. In this regard the bond issue may only be subscribed to through the services of an Investment Services licence holder duly authorised in terms of the Investment Services Act (Cap.370) to provide investment advice, execute orders and/or send and

transmit orders in relation to transferable instruments. The Investment Services licence holder shall carry out a suitability or appropriateness test in terms of Standard Licence Conditions 2.13 to 2.24 of the Investment Services Rules for Investment Services Providers with respect to prospective bondholders and shall be satisfied that investment in the bond issue is suitable and/or appropriate for his client prior to effecting the purchase of the bonds for such client. In the case of non-advisory clients, the Investment Services licence holder shall not accept any requests to purchase bonds in the relevant issue unless the licence holder is satisfied that the client has passed the appropriateness test.

The reporting on the financial soundness of an issuer was introduced to reduce the possibility that a prospective local retail investor invests in companies approaching the market which are not financially sound. The Listing Authority believes that the investors satisfying the above criteria would be in a position to make an informed decision with regards to the bond issue without the need of specific reporting on the financial soundness of the issuer.

[2.0 Consultation period]

The proposed amendments to the Listing Authority policies are being issued for consultation. The Listing Authority invites comments by not later than the **5th September, 2011** on the proposed amendments. Interested parties are to send their comments in writing addressed to the Chairman – Listing Committee (e-mail: listcomm@mfsa.com.mt).

[3.0 Contacts]

Any queries regarding the proposed amendments to the Listing Authority policies are to be directed to:

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Communications Unit
Malta Financial Services Authority
MFSa Ref: 08-2011
12th August 2011