INVESTOR COMPENSATION SCHEME

MALTA

CONTRIBUTIONS TO THE INVESTOR COMPENSATION SCHEME

USER GUIDELINES

Disclaimer: These user guidelines are meant to serve as a guide on the contributions to be paid by licence holders which are required to participate in accordance with the Investor Compensation Scheme Regulations (Subsidiary Legislation 370.09 of the Laws of Malta), and should therefore always be read in conjunction with the aforementioned Regulations. These guidelines are not meant to serve as a substitute or legislative supplement thereof, and all participating licence holders are therefore kindly urged to always refer to the latest legislation which shall, in any case, supersede the contents of these user guidelines.

1. INTRODUCTION

The Investor Compensation Scheme ('ICS') is introducing changes to the contribution methodology encompassed by the Investor Compensation Scheme Regulations (S.L. 370.09). These changes aim to strengthen its financial capabilities to ultimately fulfil its mandates and objectives established by law, and to ultimately provide the best protection possible to the investor as the consumer in the eventuality of a payout.

Simultaneously, the amendments being implemented strive to mitigate the risk of financial impact upon the Scheme's participants also through numerous suggestions which were taken on board and implemented in these changes following consultation with the industry,

These user guidelines are therefore construed to provide guidance to licensed holders which are licensed by the Malta Financial Services Authority ('MFSA'), and which are required to participate in the ICS on the respective contributions which are to be paid in accordance with the aforementioned Regulations.

2. WHICH LICENCE HOLDERS ARE REQUIRED TO PARTICIPATE?

Under the Investor Compensation Scheme Regulations, a licence holder is defined as any person who holds a licence to carry out investment services business in terms of the Investment Services Act.

The following licence holders are required to **participate and contribute to the ICS**:

- Investment Firms which possess a **Class 1, Class 1 Minus, Class 2 or Class 3** licence in terms of the EU Investment Firms Regulation (EU 2019/2033) and EU Investment firms Directive (EU 2019/2034);
- **Credit institutions which are authorised to provide investment services**; and
- **Fund managers authorised to provide ancillary MiFID activities to retail clients** as defined in Article 34 of Directive 2014/65/EU.

However, if the licence holder concerned **provides investment services solely and exclusively to persons who do not fall within the definition of 'retail investor'** in terms of regulation 2, then **they are not required to participate in and contribute to the Scheme** but may request to participate and contribute voluntarily.

3. WHAT ARE THE CONTRIBUTIONS TO BE PAID?

Licence holders described in the preceding section and which do not provide investment services solely to those persons who do not fall within the definitions of 'retail investor', are required to pay the below contributions:

- **Fixed Contribution;** which is to be paid by all licence holders which are participating within the Scheme **on an obligatory basis**, **annually**;
- **Variable Contribution;** which is to be paid annually on an obligatory basis and held in an Investor Compensation Scheme Reserve;
- **Extraordinary Contribution**, which is requested in those circumstances deemed exceptional by the Management Committee; and
- **Management Expenses Contribution,** which is requested if the Scheme has reasonable grounds to believe that the funds available are insufficient to meet management expenses in the financial year are, or that they will be insufficient.

Participants are further required to maintain an **Emergency Drawdown Reserve**, equivalent to one percent (1%) of the investment services activities related revenue, in the form of cash and cash equivalents.

The below table provides an overview of the contributions which are to be paid by the respective participants:

Participants	**Fixed Contribution***	**Variable Contribution**	**Extraordinary Contribution**	**Management Expenses Contribution**
Class 1 Investment Firms	€40,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Class 1 Minus Investment Firms	€40,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Class 2 Investment Firms authorised to deal on own account	€22,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Class 2 Investment Firms <u>not</u> authorised to deal on own account	€7,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Credit institutions authorised to deal on own account	€22,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Credit institutions <u>not</u> authorised to deal on own account	€7,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Class 3 Investment Firms	€5,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$
Fund Managers	€7,000	0.1% of the increase in ISA (Minimum €698.81)	0.15% of the ISA related revenue	$\frac{ISA\ Revenue\ of\ Participant}{Total\ ISA\ Revenue\ of\ all\ Participants} * Management\ Expenses$

Licence holders which have joined the Scheme part way through the financial year and which have been licensed for longer than 1 year, shall calculate and pay the Fixed Contribution as follows:

$$\frac{contribution * days}{365}$$

4. WHEN ARE THE CONTRIBUTIONS TO BE PAID?

The contributions by the participants are to be paid as follows:

A. Fixed Contribution

The fixed contribution is to be paid **annually** following the Scheme's communication and per its stipulated deadline, covering the respective calendar year.

B. Variable Contribution

The variable contribution is to be paid **annually**, following its communication and in accordance with the stipulated deadline, covering the respective calendar year.

The variable contribution is to be held by the participant in an **Investor Compensation Scheme Reserve** and invested with a third party approved by the Management Committee of the Investor Compensation Scheme (refer to Section 6) or paid directly to the Scheme. The variable contribution is to be made available **within 30 calendar days** upon request of said fund by the Scheme.

If the variable contribution becomes higher than the Investor Compensation Scheme Reserve, the participant is required **to top-up the difference** to ensure that the higher amount is always on reserve **within 1 month from the financial year end**. In all circumstances, the amount held on reserve or deposited shall be **not less than €698.81**.

C. Extraordinary Contribution

The extraordinary contribution shall be made available **within 30 calendar days from the time when the Scheme issues a notification**.

D. Management Expenses Contribution

The management expenses contribution shall be requested by the Scheme **at least once in every financial year** if it has reasonable grounds to believe that the funds available are insufficient to meet management expenses in the financial year are, or that they will be insufficient.

E. **<u>Emergency Drawdown Reserve</u>**
These funds are to be made available within thirty (30) calendar days from the time in which the Scheme makes a call on such funds in terms of regulation 16.

5. WHAT HAPPENS IF A PARTICIPANT UPGRADES ITS LICENCE?

In the eventuality that a participant of the Investor Compensation Scheme upgrades its licence as follows:

i. From **a Class 3 to Class 2** (not authorised to deal on own account); or

ii. From **Class 2 (not authorised to deal on own account) to Class 2 (authorised to deal on own account)**; or

iii. From **Class 2 (not authorised to deal on own account) to Class 1/Class 1 Minus**;

it must pay **an additional fixed contribution during the same calendar year in which it has upgraded its licence** and calculate the contribution as follows, based on the difference between the fixed contribution previously levied on the participant and the newly applicable fixed contribution:

$$\frac{difference * days}{365}$$

6. HOW ARE THE FUNDS IN THE INVESTOR COMPENSATION SCHEME RESERVE TO BE INVESTED?

The funds which are held by a participant licence holder in the Investor Compensation Scheme Reserve **must be invested with a third party which is approved by the Management Committee of the Investor Compensation Scheme**, and must be invested as follows:

A. **At least 25% of the total amount** shall be maintained in an interest-bearing bank account denominated in Euro **with a maximum maturity 30-day call**, **or invested in Malta Treasury Bills denominated in Euro**; and

B. **Not more than 75% of the total amount** shall be invested as follows:

i. **at least 50%, which in this case is 37.5% of the total Investor Compensation Scheme Reserve** shall be invested in Malta Government stocks or in local SICAVs that invest principally in Malta Government stock; **and**

ii. the balance may be invested **in debt instruments issued by local or international entities with an investment grade of not lower than "A" by a reputable credit rating agency**, which are quoted on an investment exchange, and which are in a dematerialised form.

For any queries, you are kindly requested to contact the Investor Compensation Scheme via email to dcs_ics@mfsa.mt.

Date: 18th August 2026

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