

# **REPORT OF THE INVESTOR COMPENSATION SCHEME FOR 2007**

## **INTRODUCTION**

In terms of regulation 8 of LN 368 of 2003 (the Investor Compensation Scheme Regulations, 2003), the Compensation Schemes Management Committee of the Investor Compensation Scheme (hereinafter referred to as “the Scheme”) is pleased to present its report on the discharge of its functions and its operations during 2007.

The Scheme’s audited financial statements for 2007 are also attached.

## **MANAGEMENT COMMITTEE**

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by a Management Committee (hereinafter referred to as “the Committee”) appointed by the Malta Financial Services Authority. By means of a publication in Government Gazette No.18,014 of 29 December 2006, the Authority, in terms of article 12 of the Investment Services Act and regulations 3 and 5 of LN 368 of 2003, the Malta Financial Services Authority appointed the Compensation Schemes Management Committee for a period of three years commencing on 1 January 2007, as follows:

### *Chairman*

Dr Anton Felice

### *Members*

Prof Andrew Muscat

Mr Benny Borg Bonello

Mr George F Farrugia

Mr Kenneth Farrugia

Mr Rene Saliba

Dr Massimo Vella

Mr Geoffrey Bezzina has served as Secretary of the Committee.

The Management Committee held seven meetings during 2007.

## **FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007**

The Scheme registered a surplus of Lm9,901 in 2007 compared to Lm7,900 registered in the previous year. Investment income amounted to Lm16,196 (2006: Lm14,276), from which Lm6,295 (2006: Lm6,376) have been spent in management and administration expenses.

Accumulated capital and reserves amounted to Lm366,122 (2006: Lm304,751). Of the capital and reserves the sum of Lm4,966 (2006: Lm3,882) is held on deposit as part of the variable contribution of licence holders. A further Lm20,842 (2006: Lm16,636) is held by participants in a reserve (the "Investor Compensation Scheme Reserve") which is pledged to the Scheme and is payable on call whenever the Scheme's funds are inadequate.

## **FUNCTIONS OF THE SCHEME**

In terms of regulation 4, the functions of the Scheme are:

- (a) To maintain a fund for the payment of claims for compensation by investors;
- (b) To place contributions to the fund on deposit or to invest such funds;
- (c) To establish procedures and arrangements for the payment of claims for compensation by investors;
- (d) To handle and pay claims for compensation by investors;
- (e) To advise the Malta Financial Services Authority on matters relating to compensation of investors.

## **BUILDING THE FUND**

The first function of the Scheme is to build and maintain a fund for the payment of claims to investors.

### *Fixed Contributions*

All Category 2 and Category 3 participants reported to the Scheme by the Malta Financial Services Authority as being licensed to provide investments services to private individuals have fulfilled their obligation to pay their Fixed Contribution to the Scheme.

The Fixed Contribution is established in the Second Schedule of Legal Notice 368 of 2003 at Lm1250 (€2911.72) for Category 2 licence holders and at Lm7500 (€17470.30) for Category 3 licence holders. The Fixed Contributions for 2007 amounted to Lm50,386 (2006: Lm46,250).

The Third Schedule of Legal Notice 368 of 2003 provides inter alia that the Malta Stock Exchange Compensation Fund is to cease and become absorbed as an integral part of the Scheme. Furthermore, according to this Schedule, a moratorium has been allowed to the members of the Malta Stock Exchange who had paid into the Malta Stock Exchange Compensation Fund so that their respective contributions are to be set-off against contributions now due by them to the Scheme.

The Management Committee has relied on a statement issued by the Malta Financial Services Authority showing those members of the Malta Stock Exchange who were entitled to set off their previous MSE contributions against their contributions to the Scheme. On the basis of this list, the amount of the set-off effected in 2007 has been of Lm10,940.

### *Variable Contributions*

The Second Schedule of Legal Notice 368 of 2003 also provides for the maintenance by participating licence holders of an Investor Compensation Scheme Reserve to be accounted for in the financial year when the Fixed Contribution is paid.

Participating licence holders are required to transfer to this Reserve a “variable contribution”. This contribution, which cannot be less than Lm300 (€698.81), is calculated annually, though not incrementally at the rate of 0.1 %, of the licence holder's total revenue. Moreover the Regulations provide that the said Reserve is to be invested by the licence holder with a third party who is approved by the Scheme.

The majority of participants have pledged their investments to the Scheme in terms of guidelines which were issued in 2004. The majority of participants hold the minimum of Lm300 (€698.81) by way of Reserve.

Only a few participants took the opportunity to pay the amount of the Variable Contribution directly to the Scheme. The Management Committee determined that the payment of the variable contribution to the Scheme shall be on account against a potential claim on the Scheme, which may call on these funds in terms of regulation 16. No interest shall be payable by the Scheme to the licence holder on funds deposited with the Scheme.

The *Statement of changes in net assets/equity* in the attached financial statements gives an explanation of the amounts held by licence holders and pledged in favour of the Scheme. This amounts to Lm20,842. The Statement also shows the variable contribution paid directly to the Scheme. This is indicated as part of the Scheme's net assets and amounts to Lm4,966.

## **PROTECTION OF FUNDS**

The second function of the Scheme is to protect and safeguard the fixed and variable contributions that are transferred or transferable by participating licence holders to the Scheme.

The Management Committee is required to deposit or invest the fixed contributions that are made to the fund, until such time as they are required for the payment of claims for compensation by investors.

In the performance of this task and in accordance with regulation 7, the Committee appointed the Central Bank of Malta to provide investment management services including financial, accounting and other related support services. This appointment has been effected in terms of an agreement (which was signed in 2003), which established the parameters for the investment of funds of the Scheme.

These parameters apply prudent investment criteria that take account of both the short and long term liquidity requirements of the Scheme.

## **PROCEDURES FOR THE PAYMENT OF CLAIMS**

The third function of the Scheme is to establish procedures for the payment of claims for compensation by investors.

In this connection, the Committee is required to inform the general public about the procedures and arrangements for claiming against the Scheme. For this purpose it has set up a website ([www.compensationschemes.org.mt](http://www.compensationschemes.org.mt)), from where users can obtain information about the scheme, as well as access to an information booklet that describes how investors may claim against the Scheme and in which circumstances.

Regulation 11 and 35 require the Committee to consult the relevant compensation schemes in other countries for the purpose of facilitating the procedures by which investors may claim against the respective Schemes. Claims against foreign schemes may follow defaults by branches of an investment services provider, which is situated overseas.

During the year, there were no participants with branches outside Malta.

## **INVESTORS' CLAIMS**

The fourth function of the Scheme is to handle and pay claims to investors.

The Committee is pleased to report that during 2007 there have been no defaults of payments by participating licence holders which give rise to a claim against the Scheme.

## **CONSULTATION**

The fifth function of the Scheme is to advise the Malta Financial Services Authority on matters relating to investors' compensation.

## LIST OF PARTICIPANTS

|  |  |   |
|--|--|---|
| All Invest Company Limited                         | Fexco Investment Services (Malta) Limited  | Jesmond Mizzi Financial Services Limited            |
| APS Bank Limited                                   | FIMBank plc                                | Lombard Bank Malta plc                              |
| Atlas Investment Services Limited                  | Financial + Investment Services Limited    | Mediterranean Bank plc                              |
| Bank of Valletta plc                               | Financial Planning Services Limited        | MFSP Financial Management Limited                   |
| Barclays International Investments (Malta) Limited | Finco Treasury Management Limited          | Michael Grech Financial Investment Services Limited |
| Calamatta Cuschieri & Co. Limited                  | GlobalCapital Financial Management Limited | Montaigne Investment (Malta) Limited                |
| Charts Investment Management Services Limited.     | Growth Investments Limited.                | MZ Investments Limited.                             |
| Crystal Finance Investments Limited                | Hogg Capital Investments Limited           | Rizzo, Farrugia & Co. (Stockbrokers) Limited        |
| Curmi & Partners Limited                           | HSBC Bank (Malta) plc                      | Sparkasse Bank Malta plc                            |
| D.B.R. Investments Limited                         | HSBC Investment Services (Malta) Limited   | Valletta Fund Management Limited                    |
| Elmo Investments Limited                           | HSBC Stockbrokers (Malta) Limited          | Volksbank Malta Limited                             |
| Epic Investment Services Limited                   | Island Financial Services Limited          | W & J Coppini Investment Services Limited           |

During the second quarter of the year, the MFSA resolved to cancel *Montaigne Investment (Malta) Ltd's* investment services licence in terms of the Investment Services Act. On the basis that the ICS was unlikely to receive any claims from clients which *Montaigne Investments* may have had and given that the company was unlikely to pay outstanding fixed contributions to the ICS, any outstanding contribution from Montaigne was written-off (the amount due had not been accrued for in the accounts of the Scheme).

During the last quarter of the year, Elmo Investments Ltd voluntarily surrendered its investment services licence and ceased to be participant of the Scheme.



**Dr Anton Felice**  
**Chairman – Compensation Schemes Management Committee**

26 June 2008

*Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2007*