MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Economic & Market Overview

December 2011

Contents

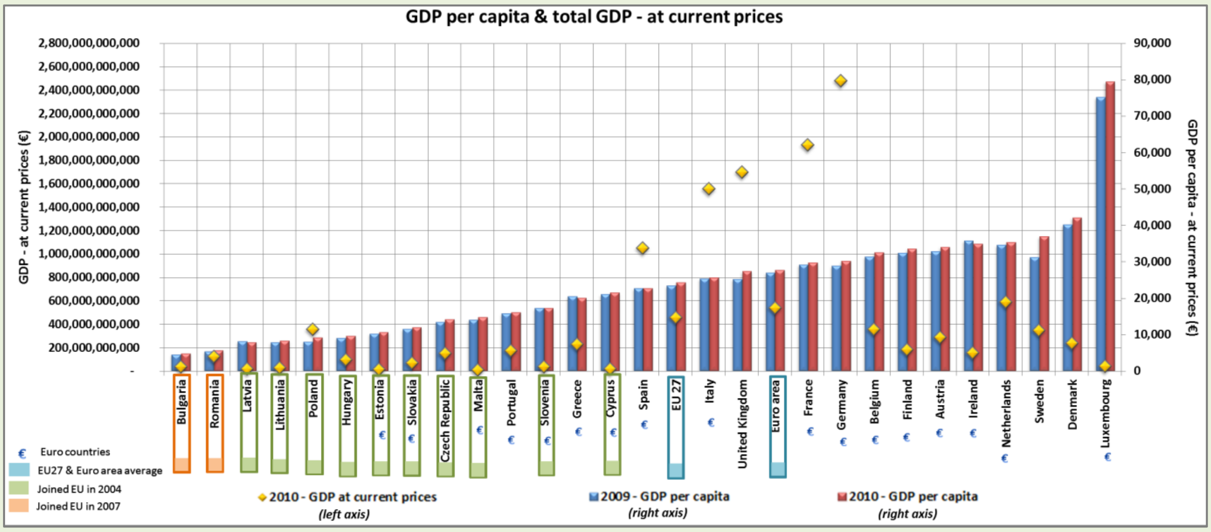
Section 1: EU member states economic performance

The European Union set up the Maastricht convergence treaty in 1992 stipulating five criteria that countries must meet in order to be eligible to adopt euro currency. The Treaty sets benchmarks with respect to inflation, government deficit, government debt, exchange rate, and nominal long-term interest rate. While the Treaty establishes entry conditions to single currency, the Stability and Growth Pact (SGP) was adopted in 1997 to maintain and enforce such fiscal discipline and stability. The aim of the Pact was to prevent the occurrence of excessive budget deficits and public debt. The Pact consists of a preventive and a dissuasive arm: *preventive* - whereby member states are obliged to indicate how they intend to achieve or safeguard sound fiscal positions in the medium term; *dissuasive* – whereby breaching of deficit threshold binds the country to engage in prompt implementation of the excessive deficit procedure (EDP) taking the form of recommendations issued by the Council to correct the excessive deficit and possible sanctions in cases of non-compliance.

The current economic and financial crisis has made member states realise that the EU's economic governance needs to be renewed. The June 2010 European Council agreed that the Stability and Growth Pact required reinforcement such that all EU 27 Member States together with European Parliament approved the so-called "six-pack" of new rules (Six Legislative Framework) [1], which came into force on 13th December 2011. This is made up of five regulations and one directive proposed by the European Commission. Four of the proposals aim to strengthen the Stability and Growth Pact and budgetary surveillance, while the remaining two proposals focus on monitoring and controlling macro-economic imbalances within the EU.

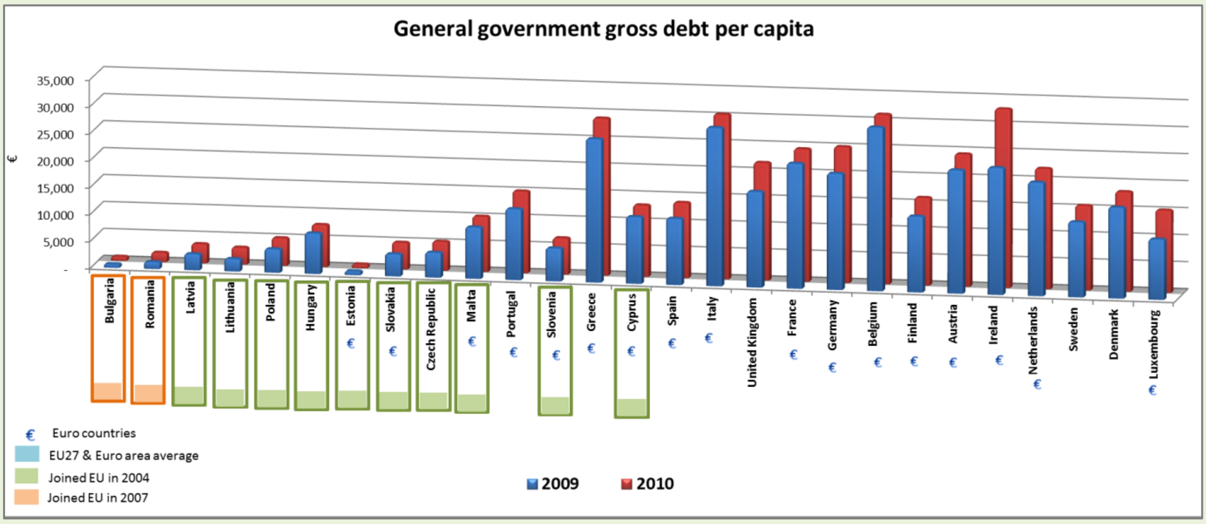
In view of the current sovereign debt crisis developing amongst a number of European countries, the following section gives an overview on how euro and non-euro EU member countries perform with respect to government debt, deficit, long-term interest rates, inflation and unemployment. To enable economic comparison, member states data in the following charts have been plotted in order of GDP per capita size. Countries forming part of the euro zone have been marked by a '€' symbol, and countries that joined the European Union in 2004 and 2007 have been marked by a green and orange mark respectively. However it must be noted that the Stability and Growth Pact is binding to all euro members at the same extent regardless of membership year, geographical or economic size.

[1] Further information on the reinforced Stability and Growth Pact may be found at the following link: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/898&format=HTML&aged=0&language=EN&guiLanguage=en



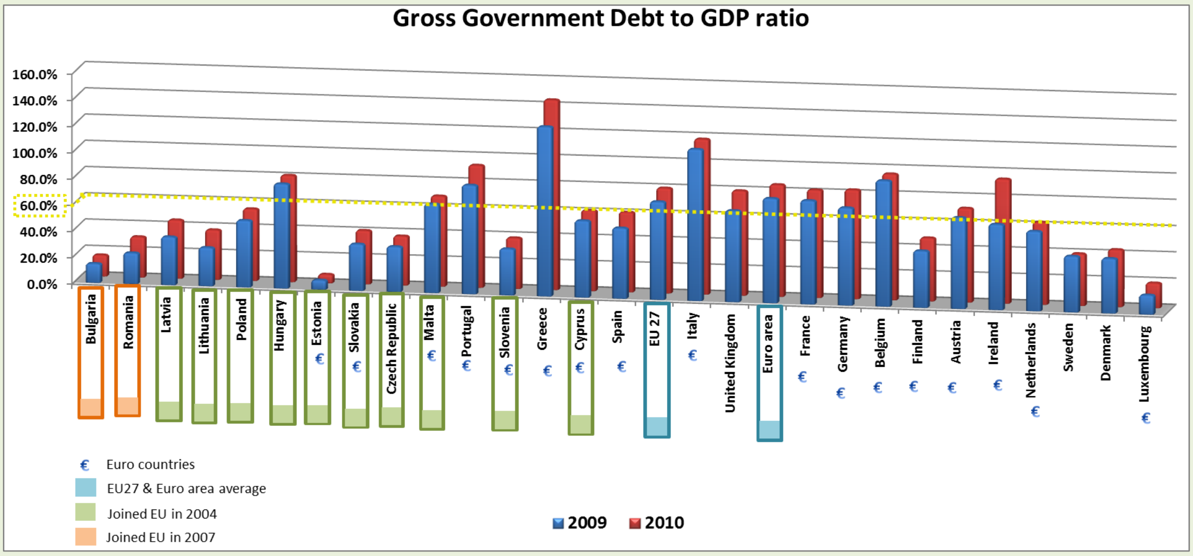
Source: *MFSA calculations based on Eurostat figures*

The first chart shows the economic size of each EU country in terms of Gross Domestic Product (GDP) at current market prices *(left axis of chart)* as at 2010. Germany has the largest economy in the EU with a GDP of over €2 trillion, followed by France, United Kingdom and Italy. In terms of GDP per capita at current market prices *(right axis of chart)*, Luxembourg has by far the largest GDP per capita, followed by Denmark and Sweden which are non-euro zone countries. Malta ranks 18th out of the 27 EU countries and 3rd out of the 12 Euro countries that joined the union in 2004 and 2007 in terms of GDP per capita size.



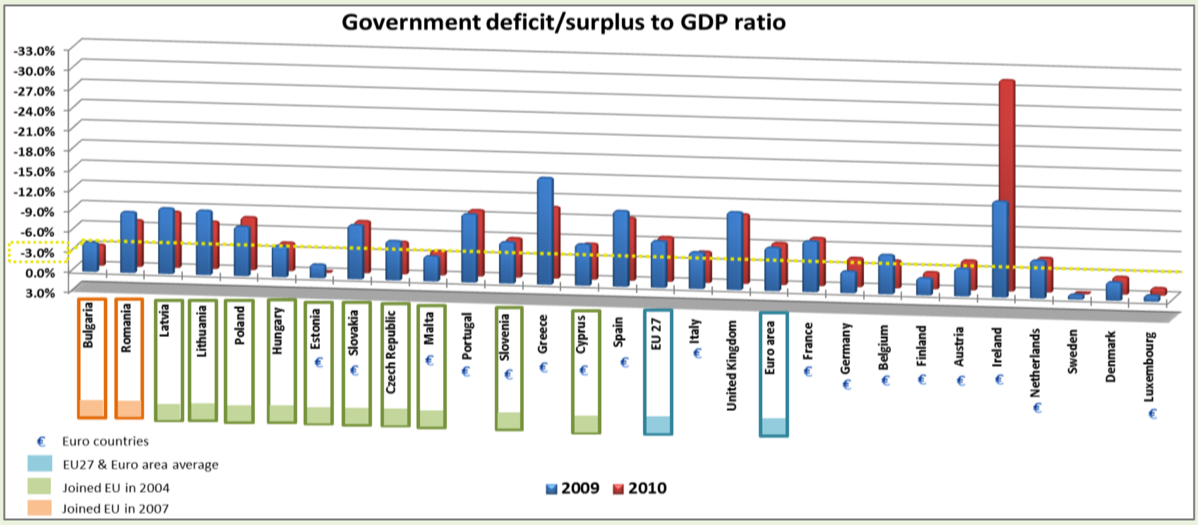
Source: *MFSA calculations based on Eurostat figures*

The above chart compares EU countries' government gross debt per capita as at 2009 and 2010. Government debt refers to the total outstanding borrowing of a country's government, thus aggregating all the money ever raised by a government that has yet to be paid off. All EU countries, with the exception of Estonia, incurred an increase in government debt per capita from 2009 to 2010. The largest change occurred in Ireland incurring an increase in debt per capita of 41 percentage points (pp) from 2009 to 2010, followed by Luxembourg (36pp), Lithuania (35pp), and Romania (34pp). Malta's debt per capita increased by 7 percentage points from 2009 to 2010, ranking Malta 17th out of the 27 EU member states as highest government gross debt per capita.



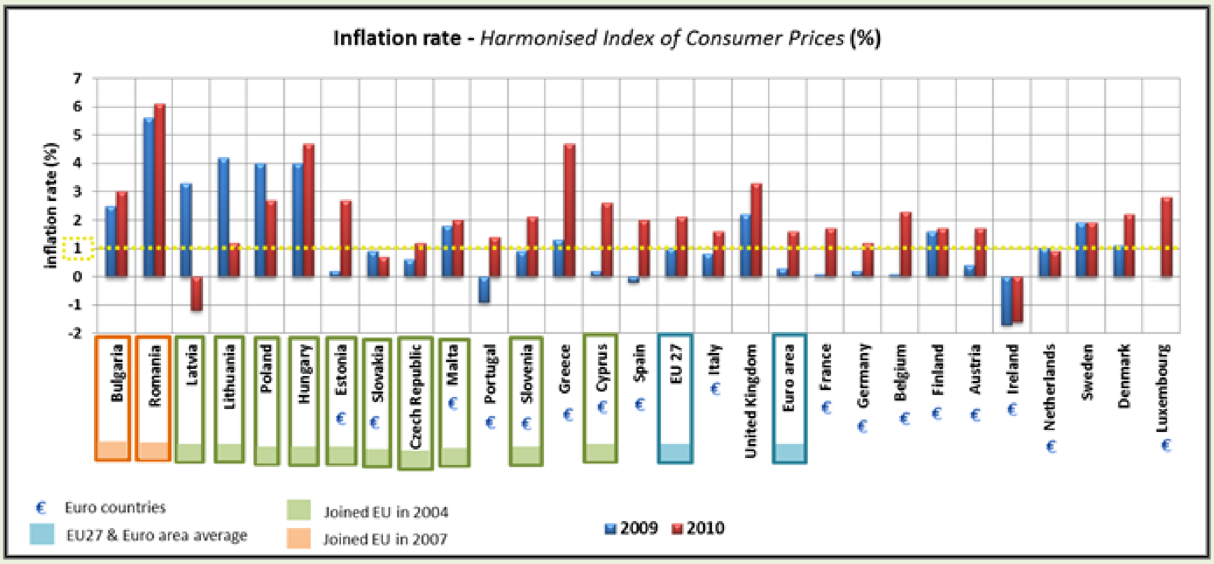
Source: *MFSA calculations based on Eurostat figures*

One of the criteria stipulated by the Maastricht convergence Treaty, enforced by the Stability and Growth Pact and reinforced in the Six Legislative Framework is that gross government debt-to-GDP ratio must not exceed 60% at the end of the preceding fiscal year or at least is approaching the reference value at a satisfactory pace. This benchmark is marked on the chart indicating that 12 out of 17 euro member countries fail this criterion, with Greece at the top of the list incurring a 145% gross government debt to GDP in 2010, followed by Italy at 118%, Belgium at 96%, Ireland at 95%, and Portugal at 93%. As at 2010, Malta had a 69% gross government debt-to-GDP ratio ranking 9th place out of 17 euro member countries as highest debt-to-GDP ratio. In comparison the EU27 average stood at 80% whereas the Euro area average stood at 85%.



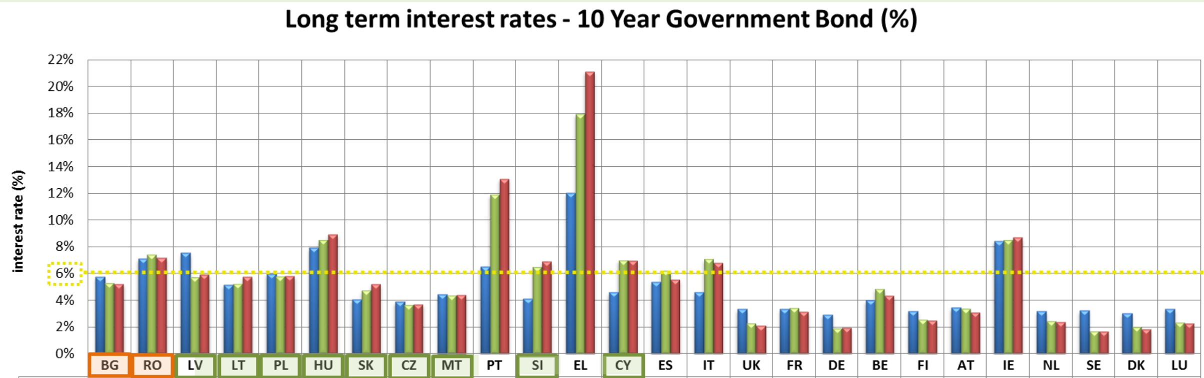
Source: *MFSA calculations based on Eurostat figures*

Another criterion enforced is that the annual government deficit-to-GDP ratio must not exceed 3% at the end of the preceding fiscal year. A budget deficit may occur when public spending exceeds government revenue, or vice versa in case of a budget surplus. The number of euro member countries exceeding this benchmark amounts to 14 out of the 17 countries. Ireland tops the list with a government deficit-to-GDP of -31.3%, followed by Greece (-10.6%), Portugal (-9.8%), and Spain (-9.3%) in 2010. During the year under review Malta's deficit was -3.6%, ranking 14th place out of the 17 euro members with respect to highest deficit-to-GDP ratio. The EU 27 average for 2010 was -6.6%, whereas the average for the euro area was -6.2%. The only EU member countries with a government surplus in 2010 were Sweden and Estonia with a government surplus-to-GDP ratio of 0.2%.



Source: *MFSA calculations based on Eurostat figures*

Low inflation is another criterion that must be met by euro zone countries, stipulating that inflation rate must not be 1.5 percentage points higher than the average of the three best performing member states. Over the 12-month reference period from April 2009 to March 2010, inflation was very low in the EU as a result of negative global price shocks and the significant downturn in economic activity in most countries. The reference value for the criterion on inflation in 2010 was 1.0%. In 2010, Romania had the highest amount of inflation at 6.1%, followed by Greece and Hungary (4.7%), and United Kingdom (3.3%). During the same period, Malta had an inflation rate of 2%, ranking 8th out of the 17 euro member countries as highest inflation rate. The EU 27 average was 2.1%, and 1.6% within the euro area.



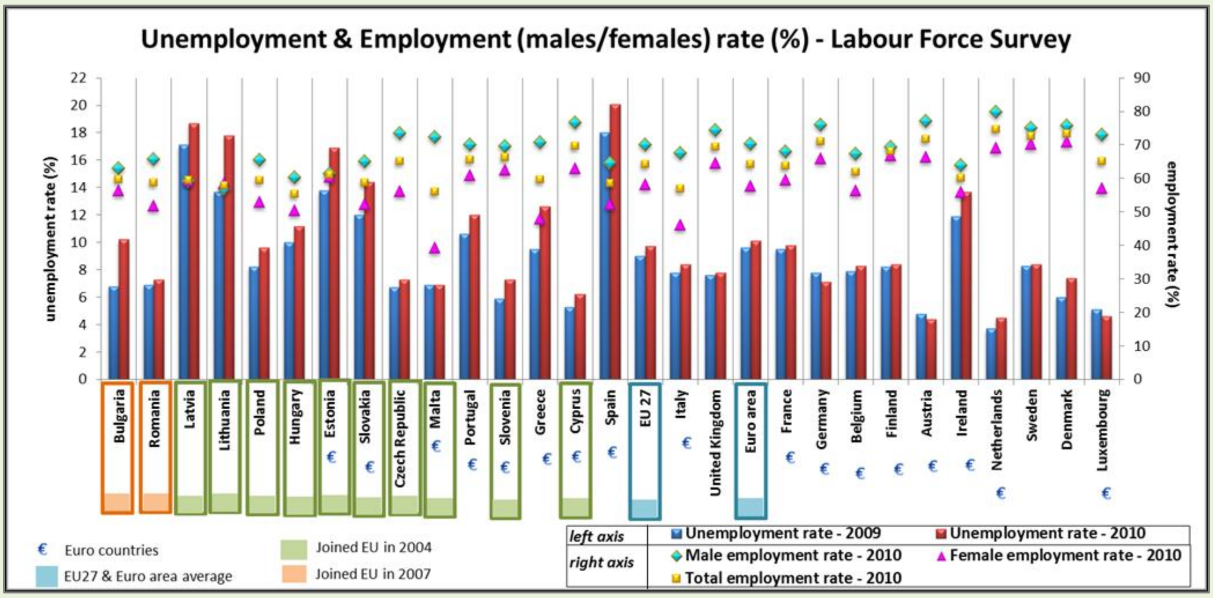
	BG	RO	LV	LT	PL	HU	SK	CZ	MT	PT	SI	EL	CY	ES	IT	UK	FR	DE	BE	FI	AT	IE	NL	SE	DK	LU
Dec. 10	5.8%	7.1%	7.6%	5.2%	6.0%	7.9%	4.1%	3.9%	4.4%	6.5%	4.1%	12.0%	4.6%	5.4%	4.6%	3.3%	3.3%	2.9%	4.0%	3.2%	3.4%	8.5%	3.2%	3.2%	3.0%	3.3%
Nov. 11	5.3%	7.4%	5.7%	5.3%	5.8%	8.5%	4.7%	3.7%	4.4%	11.9%	6.5%	17.9%	7.0%	6.2%	7.1%	2.3%	3.4%	1.9%	4.8%	2.5%	3.4%	8.5%	2.5%	1.7%	2.0%	2.3%
Dec. 11	5.2%	7.2%	5.9%	5.8%	5.8%	9.0%	5.2%	3.7%	4.4%	13.1%	6.9%	21.1%	7.0%	5.5%	6.8%	2.1%	3.2%	1.9%	4.4%	2.5%	3.1%	8.7%	2.4%	1.7%	1.9%	2.3%
							€		€	€	€	€	€	€	€		€	€	€	€	€	€	€			€

€ Euro countries
Joined EU in 2004
Joined EU in 2007

note: Estonia has been left out from analysis as currently there are no suitable long-term government bonds available for comparison on the financial market due to a very limited government debt. (Sources: ECB and European Commission)

Source: *MFSA calculations based on European Central Bank figures (Long-term interest rate statistics for EU Member States)*

The following chart relates to long term interest rates for EU member states for 10 year government bonds issued by each country quoted as percentages per annum. As per Maastricht Criteria a member state must have an average nominal long-term interest rate not greater than 2 percentage points than that of the three best performing countries in terms of price stability. Over the 12-month reference period from April 2009 to March 2010, the reference value for long-term interest rates was 6.0%. As at December 2011, six of the 17 euro member countries have exceeded this limit, namely Greece (21.14%); Portugal (13.08%); Ireland (8.7%), followed by Cyprus (7.0%); Slovenia (6.9%) and Italy (6.81%). Earlier in the economic crisis of Greece, Ireland and Portugal, the 7% long term interest rate threshold was the point of their no return, where the interest rate continued to increase beyond this threshold forcing countries to seek aid from euro-zone partners and the International Monetary Fund. Malta's long term interest rate is still well within the convergence criteria benchmark, with a rate of 4.43% ranking 9th place out of the 17 euro member countries with respect to highest long term interest rates for 10 year government bonds.

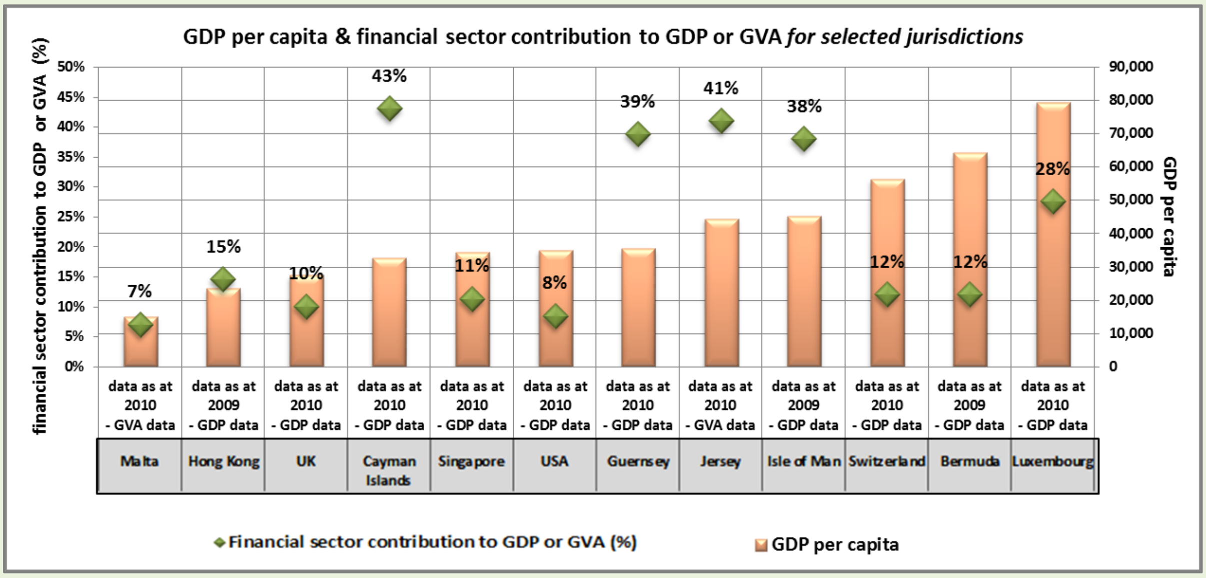


Source: *MFSA calculations based on Eurostat figures (Labour Force Survey)*

Although the Maastricht treaty and the Stability and Growth Pact fail to set benchmarks on unemployment levels within the EU, it is still considered to be a significant indicator of economic performance. The EU member with the highest unemployment rate in 2010 was Spain with a 20.1% unemployment rate. This is followed by Latvia (18.7%), Lithuania (17.8%), Estonia (16.9%) and Slovakia (14.4%). Unemployment rates were lowest in Austria (4.4%), Netherlands (4.5%), and Luxembourg (4.6%). Malta's unemployment rate was 6.9%, ranking 23rd place out of the 27 EU countries and 13th place out of the 17 euro members with respect to highest unemployment levels. The average unemployment rate in EU 27 is 9.7%, and 10.1% within the euro area.

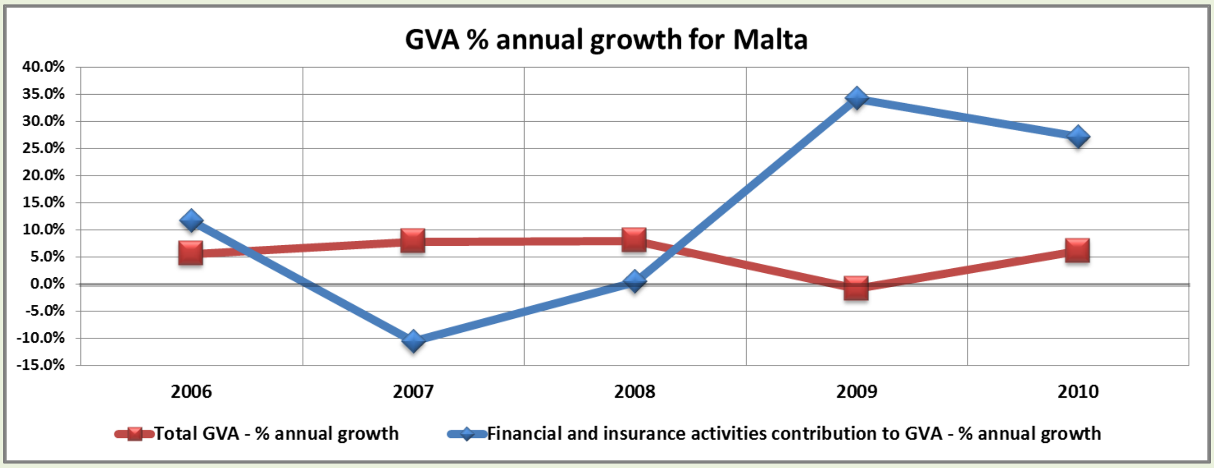
Employment levels (persons aged 15 to 64) in 2010 were highest in the Netherlands, Denmark, Sweden, Austria, and Germany, with employment rates exceeding 70%. The country with the lowest employment rate within the EU27 was Hungary (55.4%), followed by Malta (56.1%), Italy (56.9%) and Lithuania (57.8%). Denmark and Sweden had the highest female employment rate, at 71.1% and 70.3% respectively. On the other hand Malta had the lowest female employment rate at 39.3%, followed by Italy (46.1%), and Greece (48.1%). The EU 27 and euro area average employment rates were both at 64.1%, whereas the female employment rate was 58.2% in EU 27 and 57.9% in euro member states.

Section 2: Local economic and financial services sector overview



Source: *MFSA calculations based on figures from respective national statistics offices*

The economic and financial services sector size of Malta together with that of other jurisdictions is shown in the above chart. The left axis of the chart shows the financial sector contribution to GDP or GVA, whereas the right axis shows GDP per capita.



Source: *MFSA calculations based on NSO figures*
NSO news release - Gross Domestic Product: Q2/2011

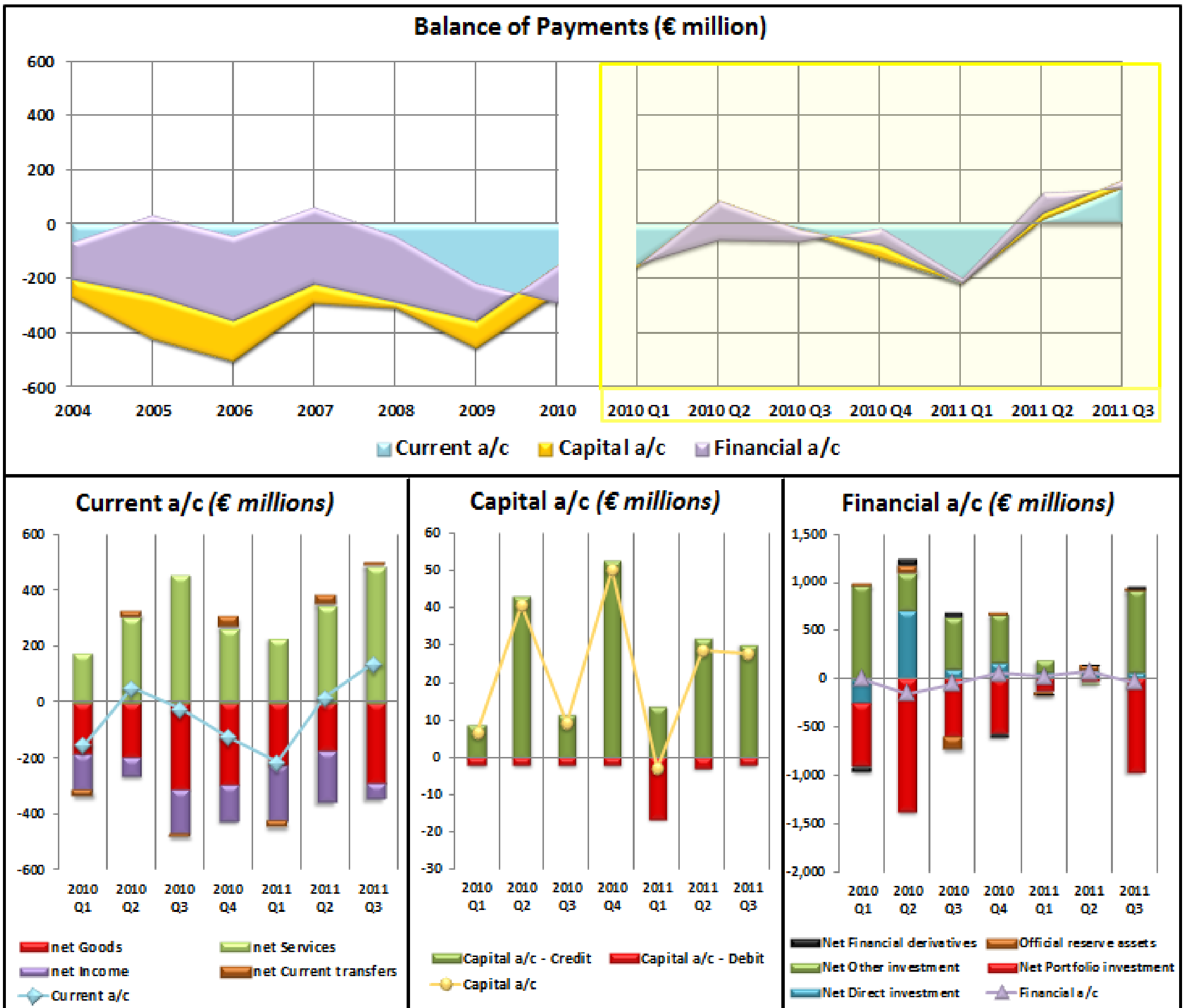
The total Gross Value Added (GVA) and financial & insurance activities contribution to GVA percentage annual growth trends are depicted in the above chart. *(GVA is the difference between output and intermediate consumption)*

Full time employment in the financial services sector in Malta

	average 2009	average 2010	June 2011
Financial intermediation, except Insurance and pension funding	4,307	4,616	4,965
Insurance and pension funding, except compulsory social security	799	718	675
Activities auxiliary to financial intermediation	639	710	797
Total full time employment in the financial services sector in Malta	**5,745**	**6,044**	**6,437**

Source: *NSO news release - Gainfully Occupied Population: June 2011 (published: 15th November 2011)*

Full time employment in the financial services sector in Malta increased by 7% from 2010 to June 2011, representing 4% of total employment as at June 2011.



The current account provides information on trade in goods, transactions in services, income from employment and investment and current transfers.	*The capital account is where all international capital transfers are recorded.*	*The financial account records an economy's transaction in external financial assets and liabilities, it consists of flow variables since it records changes in the country's asset holdings during the year.*

Source: *NSO - International Economic and Financial Transactions: Q3/2011 (release 240/2011)*

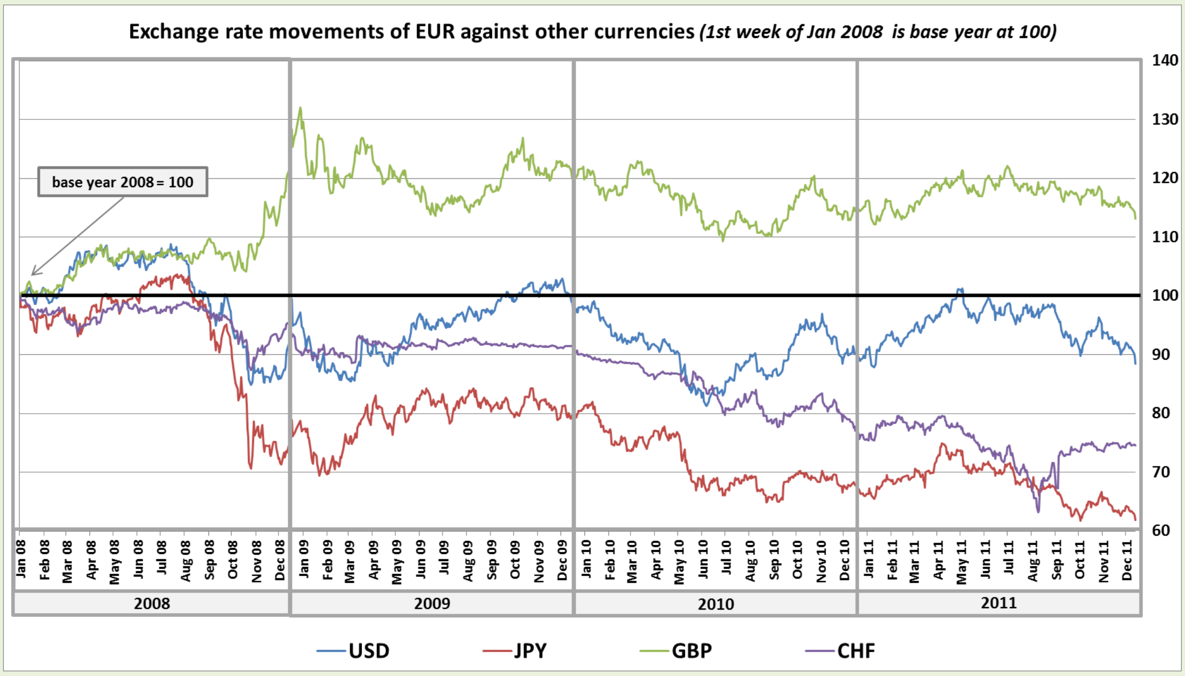
The Balance of Payments (BoP) registers all the economy's transactions with the rest of the world. It is made up of the current account, capital account, and financial account. The current account balance registered a surplus in the 3rd quarter of 2011 amounting to €138.1 million, as against a current account deficit of €24.8 million incurred during the same period the previous year.

The *current account* incurred a decrease in net outflow on the income account amounting to €61.6

million in 3rd quarter of 2011, an improvement of €97.3 million from that of the previous year, thus acting as a main contributor to the current account balance surplus. The main reason for such a decrease is due to a reduction in reinvesting earnings by foreign direct investors together with a decrease in net interest payments abroad. The services account also contributed to the current account balance surplus mainly due to increases of services provided to foreigners whereby travel services accounted for 63% of the net services account balance. The net services account surplus for 3rd quarter 2011 amounted to €486.3 million, an increase of €31.8 million from the same quarter in the previous year. In contrast, the trade gap in the goods account contracted by 8.5% when compared to the same period the previous year amounting to €288.4 million in 3rd quarter 2011. The net current transfers account increased to €1.8 million in the period under review.

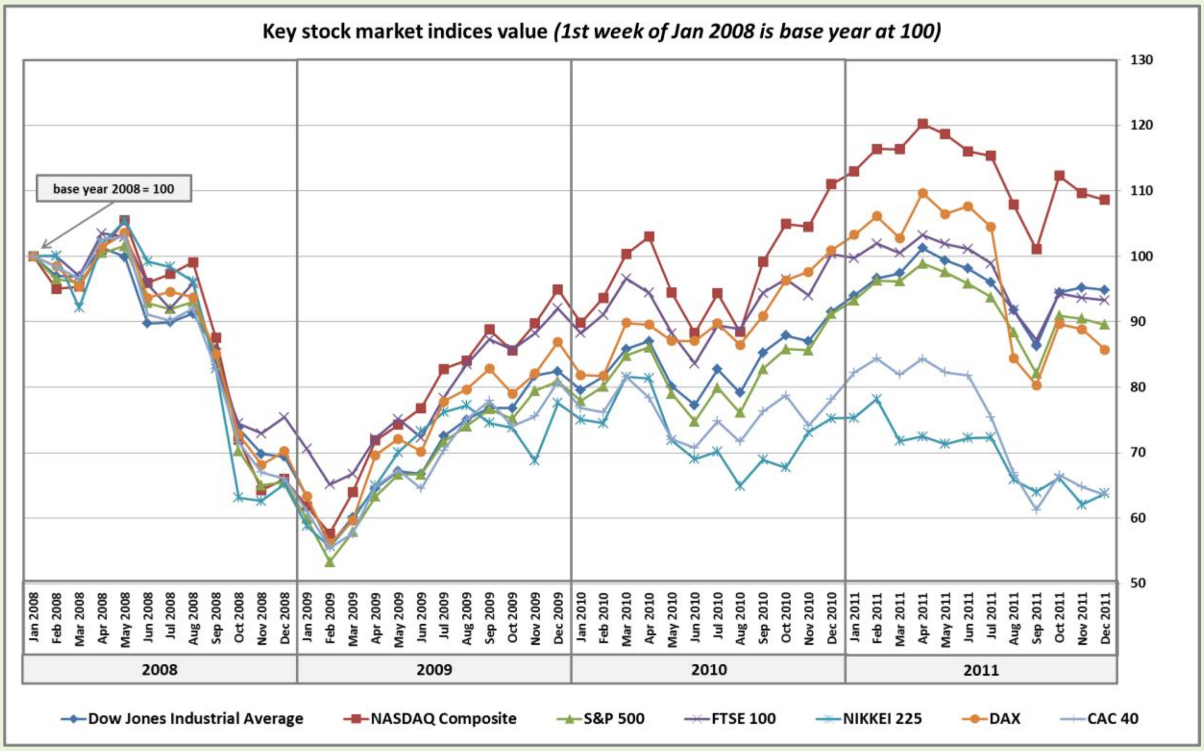
The *capital account*, which includes the transactions of capital transfers, capital acquisition and non-produced non-financial assets, experienced an increase in net inflows of €18.6 million from the previous year reaching €27.8 million during 3rd quarter of 2011.

The *financial account* incurred a net outflow of €33.1 million during 3rd quarter 2011, as against a net outflow of €51.5 million the previous year. Net Direct Investment registered a drop of €42.8 million from 3rd quarter of 2010 to 2011, amounting to €57.8 million in 3rd quarter 2011. This was due to a reduction in direct investment in Malta inflows of €33 million, and an increase in direct investment abroad outflows of €9.8 million. The portfolio investment account was characterised by net outflows of €972.2 million when compared to net outflows of €603.9 million recorded during 3rd quarter 2010. The other investment account registered net inflows of €848.3 million during 3rd quarter 2011 as against net inflows of €535.3 million during the same period the previous year. The financial derivatives account incurred a reduction in net inflows of €17.3 million when compared to the previous year, amounting to €22.1 million in 3rd quarter 2011. Finally, Malta's reserve assets decreased to €10.9 million during the period under review.



Source: *European Central Bank - Euro foreign exchange reference rates*

In order to monitor the exchange rate movements of the Euro currency against that of US dollar, Japanese yen, pound sterling, and Swiss franc, 1st week of January 2008 was used as a base year at 100. An increase in the index implies a euro appreciation whereby euro currency buys more units of the foreign currency, whereas a decrease in index implies a euro depreciation whereby euro currency buys fewer units of the foreign currency.



Source: *Yahoo Finance historical prices*

The key stock indices summarises the performance of major groupings of stocks. Each of the indices tracks the performance of a specific basket of stocks representing a particular market or sector. In order to monitor performance of stock indices, the 1st week of January 2008 was used as a base year at 100.

Section 3: Comparative Study

3.1 – Economic statistics for Malta, UK, Switzerland, Hong Kong, Cayman Islands, and France

Macro Economic statistics	Malta	UK	Switzerland	Hong Kong	Cayman Islands	France
GDP at Current Market Prices *(2010 data; data for Cayman Islands as at 2009)*	€ 6,154,172,000	€ 1,752,315,270,936	€ 451,657,916,325	€ 171,676,741,027	€ 2,369,279,520	€ 1,917,190,900,000
GDP per capita at Current Market Prices *(2010 data; data for Switzerland and Cayman Islands as at 2009)*	€ 14,736	€ 27,300	€ 56,294	€ 24,290	€ 42,052	€ 29,800
Real GDP growth rate *(2010 data)*	2.9%	*n/a*	*n/a*	4.3%	*n/a*	*n/a*
Inflation *(2011 data)*	2.7%	4.3%	0.2%	6.4%	0.3%	2.2%
Population *(2010 data)*	417,617	62,026,962	7,785,806	7,102,300	54,397	64,716,213
Labour Force *(2011 data)*	181,684	31,508,600	4,808,000	3,765,200	35,859	28,542,200
Employment *(2011 data)*	170,466	29,062,600	4,621,000	3640100	33,463	25,860,200
Unemployment rate % *(2011 data)*	6.2%	8.3%	4.2%	1.6%	6.7%	9.8%
Employees within the Financial Services Sector	*2011:* 6,437	*2009:* 1,091,263	*2011:* 232,000	*2010:* 210,246	*2009:* 3,185	*2009:* 873,494
% of Employees within Financial sector as per total employment	4%	4%	6%	6%	10%	3%
Graduates from University Sector *(approx per annum)*	2,737	*n/a*	*n/a*	20,971	1,189	*n/a*

3.2 – Financial services statistics & comparative study on UK, Switzerland & Hong Kong

3.2.1 –Financial services statistics

Funds	UK	Switzerland	Hong Kong
Total Net Assets of domiciled funds	**€ 793,957,000,000**	**€ 253,216,000,000**	**€909,419,014,085** *
UCITS market	€ 675,401,000,000	€ 195,998,000,000	-
Non-UCITS market	€ 118,556,000,000	€ 57,218,000,000	-
Number of Funds (including Sub-funds)			
Domiciled	2,941	873	2,501
Collective Investment Schemes (incl. subfunds)			
UCITS	2,425	653	-
Non UCITS	516	220	-
Unit Trusts & Mutual Funds	-	-	1,846
Real Estate Investment Trusts	-	-	9
Investment-Linked Assurance Schemes	-	-	252
Pooled Retirement Funds	-	-	35
MPF Master Trust Schemes	-	-	40
MPF Pooled Investment Funds	-	-	303
Paper Gold Schemes	-	-	16

notes:
Data for UK & Switzerland as at Dec 2010
Data for Hong Kong as at Sep 2011

* ***Data as at Dec 2010***

Banking	UK	Switzerland	Hong Kong
Credit Institutions			
Banks incorporated in the United Kingdom	155	-	-
Banks incorporated outside the EEA authorised to accept deposits through a branch in the UK	79	-	-
Banks incorporated in the EEA entitled to accept deposits through a branch in the UK	83	-	-
licensed banks	-	100	146
restricted licence banks	-	-	21
deposit taking companies	-	-	26
approved money brokers.	-	-	16
Total Assets	€ 5,158,601,822,616	€ 1,030,859,662,013	n/a
Total Liabilities	€ 5,158,601,822,616	€ 1,052,167,523,880	n/a

notes:
Data for UK as at Aug 2011
Data for Switzerland & Hong Kong as at 2010

Insurance			
	UK	**Switzerland**	**Hong Kong**
Insurance Undertakings			
Life Insurance Companies	**309**	**21**	**46**
authorised by the FSA	129	-	-
EEA authorised and passported into the UK under the 3rd Life Directive	180	-	-
Non-Life Insurance Companies	**1005**	**79**	**106**
authorised by the FSA	411	-	-
EEA authorised and passported into the UK under the 3rd Non-Life Directive	594	-	-
Reinsurance Companies	n/a	27	n/a
Composite Companies	n/a	n/a	19
Captive Insurers	n/a	35	n/a
Insurers of foreign origin			
Life insurance	n/a	4	n/a
Non-life insurance	n/a	47	n/a
No. of Authorised Insurance Brokers	n/a	n/a	562
No. of Registered Insurance Agents	n/a	n/a	34,429

notes:

Data for UK & Switzerland as at 2010

Data for Hong Kong as at 2009

3.2.2 - Comparative study on Resources, Reputation, Regulatory Infrastructure & Rules for UK, Switzerland & Hong Kong

		UK	Switzerland	Hong Kong
Resources	Infrastructure - country	• The UK's strengths historically have been its open market based economy, its regulatory, accounting and legal frameworks, its skilled labour force, its critical mass of financial services participants, as well as the use of English as a business language and the relative long-term stability and predictability of its tax regime. • The UK is also recognised internationally for its world-leading financial services industry. • There are thriving financial districts in other large cities apart from the City of London, such as Manchester, Leeds, Bristol, Edinburgh, Glasgow, Cardiff and Belfast. • UK providers of education and training are well placed to equip professionals with internationally mobile skills and qualifications.	• Switzerland has a sound institutional environment, excellent infrastructure, efficient markets, competent macroeconomic management, world-class educational attainment, and high levels of technological innovation, which boost Switzerland's competitiveness in the global economy. • The country also has a well-developed infrastructure for scientific research. Companies spend generously on research and development (R&D), and intellectual property protection is strong. • Switzerland has four national languages: German, French, Italian and Romansh. • It is well known for its strong work ethic and the high productivity of its workforce. It has one of the world's highest productivity levels per worker. • Switzerland has an excellent education system and scores highly in international comparisons of education, research and development.	• Hong Kong is a country with world-class infrastructure, well developed capital markets, highly educated work force, attractive tax regime, stable economic and political environment, pro-business environment, and with an effective legal system. • Transportation services are efficient and cheap connecting all major centres. • Hong Kong is also the preferred Exhibition and Convention Centre for most businesses in the region. • Hong Kong's telecommunications infrastructure is one of the most technically advanced in the world. • Hong Kong consists of a highly trained, well-educated and skilled workforce. Although English is the language of communication in business settings, bulk of the workforce is also conversant with Cantonese and Mandarin, owing to the country's link to China.

Resources	Infrastructure - regulator	• The Financial Services Authority (FSA) is UK's financial services regulator. • It is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000.	• Financial Market Supervisory Authority (FINMA) is the state regulator, endowed with sovereign authority over banks, insurances companies, stock exchanges, securities firms and collective investment schemes. FINMA grants operating licences for companies. • Parliament approved the Federal Act on the Swiss Financial Market Supervisory Authority (FINMASA; SR 956.1) on 22 June 2007. The Federal Council ratified the implementing provisions for FINMASA on 15 October 2008 and the Act entered into full force on 1 January 2009. • The Act merges three bodies, these are: the Federal Office of Private Insurance, the Swiss Federal Banking Commission and the Anti-Money Laundering Control Authority, into the Swiss Financial Market Supervisory Authority (FINMA).	• The principal financial regulators are the: - Hong Kong Monetary Authority (HKMA); - Securities and Futures Commission (SFC); - Office of the Commissioner of Insurance (OCI); - Mandatory Provident Fund Schemes Authority (MPFA). They are responsible respectively for regulation of the banking; securities and futures; insurance and retirement scheme industries. • The ***Hong Kong Monetary Authority (HKMA)*** was established on 1 April 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking. The HKMA is the government authority in Hong Kong responsible for maintaining monetary and banking stability. • The ***Securities and Futures Commission (SFC)*** is an independent statutory body established by the Securities and Futures Commission Ordinance (SFCO), which came into operation on 1 April 2003. SFC is responsible for administering the laws governing the securities and futures markets in Hong Kong and facilitating and encouraging the development of these markets.

Resources	Infrastructure – regulator (cont…)			• Established as an office within the Government structure, the ***Office of the Commissioner of Insurance (OCI)*** administers the legislation governing the operation of insurance companies and insurance intermediaries in Hong Kong. The Government is looking into the establishment of an independent insurance authority in Hong Kong. • The ***Mandatory Provident Fund Schemes Authority (MPFA)*** was established in September 1998 as an autonomous, statutory body to regulate, supervise and monitor the operation of the Mandatory Provident Fund System. Its mission is to ensure the provision of retirement protection for Hong Kong's workforce through an effective and efficient system of prudential regulation and supervision of privately managed provident fund schemes.
	Employees in financial sector	• The financial services industry employs around 4.2% of the UK workforce (Labour Force Survey, Office for National Statistics, 2009).	• The financial sector employs around 6% of the working population.	• Employees in Financing and insurance sector as at 2010 is equivalent to 6% of total employment.

Resources	**Legal profession**	• UK is one of the two leading centres for international legal services. Based on revenue two out of the top five law firms in the world are international law firms based in the UK.	• In Switzerland there is no distinction between different types of attorneys. An attorney must be admitted to a cantonal bar and is then licensed to practice throughout Switzerland.	• Hong Kong's legal system is separate from Mainland China's, and English common law prevails.
	Tax treaties	• There are more than 2,500 double taxation treaties world-wide and the UK has the largest network of treaties, covering over 100 countries.	• Switzerland has Double Taxation Treaties with 100 countries.	• Hong Kong has concluded 34 Double Taxation Agreements.
	Tax structure	• The Corporate tax rate charged during 2011 is 26%. Small Profits Rate at 20% can be claimed by qualifying companies with profits at a rate not exceeding £300,000. Unit trusts and open-ended investment companies have a special rate of 20%.	• Corporate income tax is levied at federal, cantonal and municipal levels. • The federal corporate income tax rate is 8.5% flat. Since income and capital taxes are deductible in determining taxable income, the effective tax rate that a company pays on its profits before deduction of tax is 7.83%. • Cantonal tax rates can be levied at rates of up to 20% and like the federal tax are progressive, using a scale based on the relationship of profits to net worth. The average cantonal tax rate in 2010 was approximately 21%. • Municipal tax on corporate income is calculated as a small proportion of cantonal tax.	• Companies pay a standard rate of 16.5% on assessable profits. • Businesses other than corporate entities pay a rate of 15% on assessable profits. • All taxpayers are subject to the same corporation or unincorporated business tax rate irrespective of their residential status. • Special concessionary rates of profits tax which are substantially less than the standard rates apply to certain businesses or sources of income.

Resources	MoUs	• UK has 54 international MOUs.	*n/a*	*n/a*
	Connectivity	• Transport in the United Kingdom is facilitated with road, air, rail, and water networks. London is served by five main airports London Heathrow Airport being the largest traffic volume international airport in the world and is the world's busiest airports, followed by Gatwick Airport, and Manchester Airport.	• Switzerland is closely integrated into the European transport infrastructure through a dense network of road, rail and air connections. 3 international airports are located in border areas only a short distance away from neighbouring countries hence facilitating international trade to and from the EU area through Switzerland. Zurich airport serves 151 destinations on four continents and 63 countries.	• Hong Kong is strategically located at the heart of the Asian continent connecting to most markets in the Asia-Pacific region. The Hong Kong International Airport is the fifth busiest international passenger airport with 85 airlines servicing over 150 destinations. The Hong Kong International Airport is often ranked as the 'Best Airport in the World'. Hong Kong is also a focal point of all maritime activities in southern China.
	Economic Impact	• UK financial services generated a trade surplus of £36bn in 2010. • The UK's financial services industry contributed £124bn to the UK economy in 2009, accounting for 10% of total economic output. • UK financial services contributed £53bn in tax revenue in 2009/10, 11% of total UK tax receipts.	• The financial sector contributes over 12% to Switzerland's economic performance.	• Financing and insurance contributed HK$235,581 million to total GDP in 2009.

Reputation		UK	Switzerland	Hong Kong
	World Economic Forum	*World Economic Forum* - The Global Competitiveness report 2011-2012: - 10th out of 142 countries in the Global Competitiveness Index; - 20th for financial market development; - 111th as soundest banking system in the world.	*World Economic Forum* - The Global Competitiveness report 2011-2012: - 1st out of 142 countries in the Global Competitiveness Index; - 7th for financial market development; - 26th as soundest banking system in the world.	*World Economic Forum* - The Global Competitiveness report 2011-2012: - 11th out of 142 countries in the Global Competitiveness Index; - 2nd for financial market development; - 10th as soundest banking system in the world.
		World Economic Forum - Financial Development Report 2010: Country Profile Highlights - The United Kingdom fell to 2nd place in the Index, accompanied by a decrease in its overall score. - Its financial intermediation pillars showed the most strength, offsetting weaknesses in other areas such as financial stability (46th). - The United Kingdom's poor performance in financial stability was particularly driven by low scores in banking system stability (54th) and currency stability (45th). - The United Kingdom achieved top standing in the size of its banking system, though performed worse with respect to its efficiency (26th). - Foreign exchange (1st) and derivatives (1st) markets were areas of particular strength within financial markets (4th). - The United Kingdom came in third with respect to insurance, achieving high rankings in indicators such as life (3rd) and non-life insurance density (4th).	*World Economic Forum* - Financial Development Report 2010: Country Profile Highlights - Switzerland ranked 8th place in the Index, with notably strong scores in business environment and financial markets. - It performed very well with respect to overall financial stability (5th). - Robust equity (2nd) and foreign exchange markets (5th) drove Switzerland's strong performance in the financial markets pillar (3rd). - The size of its banking system was another source of strength (7th), although opportunities for improvement existed in its efficiency (23rd) and the degree of financial disclosure (42nd).	*World Economic Forum* - Financial Development Report 2010: Country Profile Highlights - Hong Kong SAR established itself as the highest-ranked economy in Asia and the Pacific, achieving an overall ranking of 3rd in the Index. - The economy showed consistent strength across its institutional and business environments (10th and 3rd, respectively), as well as in the stability of its financial system (2nd). - Commercial access to capital represented another area of strength, where Hong Kong achieved top standing and bolstered its second-place ranking in financial access. - While Hong Kong's banking system is quite large and efficient, an opportunity for improvement exists in the extent to which banks disclose financial information (23rd). - The economy's score in non-banking financial services was negatively impacted by limited securitization activity (30th). - In contrast to Hong Kong's healthy equity

Reputation		- Securitization was also strong (2nd). - Although the United Kingdom's institutional environment was fairly strong overall (6th), it demonstrated a need for improvement across areas related to regulation and corporate governance; this included centralization of economic policy-making (46th), burden of government regulation (32nd) and strength of auditing and reporting standards (14th). - Taxation (29th) was also a particular area of weakness as indicated by high marginal tax rates and the distortive effect of taxes and subsidies on competition.		and foreign exchange markets, bond market development remains relatively undeveloped and represents an additional area for improvement.
	Global Financial Centres Index	*Global Financial Centres Index 8 (Sep 2010):* London ranked 1st place *Global Financial Centres Index 9 (Mar 2011):* London ranked 1st place *Global Financial Centres Index 10 (Sep 2011):* London ranked 1st place	*Global Financial Centres Index 8 (Sep 2010):* Zurich ranked 8th place; Geneva ranked 9th place *Global Financial Centres Index 9 (Mar 2011):* Zurich ranked 8th place; Geneva ranked 9th place *Global Financial Centres Index 10 (Sep 2011):* Zurich ranked 8th place; Geneva ranked 13th place	*Global Financial Centres Index 8 (Sep 2010):* Hong Kong ranked 3rd place *Global Financial Centres Index 9 (Mar 2011):* Hong Kong ranked 3rd place *Global Financial Centres Index 10 (Sep 2011):* Hong Kong ranked 3rd place
	World Bank	*World Bank 'Doing Business' report 2011:* ranked 4th place as ease of doing business.	*World Bank 'Doing Business' report 2011:* ranked 27th place as ease of doing business.	*World Bank 'Doing Business' report 2011:* ranked 2nd place as ease of doing business.

Regulatory Infrastructure & Rules		UK	Switzerland	Hong Kong
	EU	The United Kingdom is a member state of the European Union, benefiting from the harmonisation of EU financial services regulation, including the UCITS passport. The United Kingdom was initially more interested in creating a European free trade area which would involve no sacrifice of national sovereignty, with the result that in 1959 the European Free Trade Association (EFTA) was created. It took more than ten years and several negotiations before Britain achieved EU membership in 1973 due to realising that it risked economic and political isolation if it remained outside the Community.	Switzerland is not a member of the European Union, however Switzerland still has close relations with the European Union with over 100 technical agreements the most imperative being the accession of Switzerland to the Economic Free Trade Association (EFTA) in 1960, the signing of the Free Trade Agreement of 1972 with the European Economic Community (EEC); the Insurance Agreement of 1989; Bilateral Agreements I of 1999; and Bilateral Agreements II of 2004.	**-**
	Redomiciliation	There is currently no mechanism in the UK for redomiciling a fund into the UK. Essentially the procedure would involve the establishment of a new fund in the UK and then the amalgamation or transfer of assets to that fund.	*n/a*	*n/a*

		UK	Switzerland	Hong Kong
Regulatory Infrastructure & Rules	Funds business	There are four levels of laws and regulation that apply directly or indirectly to funds: (i) European legislation; (ii) UK legislation - Financial Services and Markets Act 2000 (FSMA 2000), and OEIC regulations; (iii) FSA regulation – FSA rules and guidelines, Collective Investment Schemes Sourcebook (COLL), Conduct of Business Sourcebook (COBS), Senior Management Arrangements Systems and Controls (SYSC). (iv) the CIS' own constitutional documents – a Trust Deed in the case of an AUT and an Instrument of Incorporation in the case of an OEIC. Authorised funds are regulated by the Financial Services Authority (FSA) and must adhere to the detailed regulatory requirements set out in the FSA's Collective Investment Schemes Sourcebook (COLL), which covers matters such as operating duties and responsibilities, investment and borrowing powers, and investor relations.	Collective investment schemes legislation and ordinances include: (i) Swiss Federal Act of 23 June 2006 on Collective Investment Schemes (Collective Investment Schemes Act, CISA); (ii) Swiss Federal Ordinance of 22 November 2006 on Collective Investment Schemes (Collective Investment Schemes Ordinance, CISO); (iii) Ordinance of the Swiss Financial Market Supervisory Authority of 21 December 2006 on Collective Investment Schemes (FINMA Collective Investment Schemes Ordinance, CISO-FINMA) The legal basis for the fund business in Switzerland is the Swiss Federal Act on Collective Investment Schemes (Collective Investment Schemes Act, CISA) of 23 June 2006, which came into force on 1 January 2007, thus replacing the Federal Act on Investment Funds (Investment Fund Act, IFA) of 18 March 1994. Swiss legislation has thus been brought in line with the new EU funds directive UCITS (Undertakings for Collective Investments in Transferable Securities), thereby strengthening Switzerland's competitiveness as a location for collective investment instruments.	The Securities and Futures Ordinance commenced operation on 1st April 2003. The Ordinance consolidated and modernised 10 existing ordinances into a composite piece of legislation governing the securities and futures markets to keep the regulatory regime at par with international standards and practices. New regulatory elements were also introduced, which include introduction of a single licence for market intermediaries to streamline regulatory arrangements and reduce compliance burden; introduction of new licensing requirements to enhance the quality of intermediary services; establishment of a civil Market Misconduct Tribunal and expansion of the existing criminal route to combat market misconduct; modernising the regime for disclosure of securities interests to enhance market transparency; and instituting a flexible framework for the regulation of automated trading services to facilitate market innovation.

Regulatory Infrastructure & Rules	**Funds business (cont …)**	At present two types of legal structure are permitted under UK law incorporated funds known as ***(i) Investment Companies with Variable Capital (ICVCs) aka Open-Ended Investment Companies (OEICs);*** and ***(ii) Authorised Unit Trusts (AUTs)***. Both types are Collective Investment Schemes (CIS) that fall under the Financial and Services and Markets Act 2000 (FSMA 2000). ***(i) Investment Companies with Variable Capital (ICVCs) aka Open-Ended Investment Companies (OEICs)*** OEICs have a corporate structure and are similar to a company. Under OEID Regulations such companies are required to have at least one director; if the company has only one director, it must be a corporate director authorised under the FSMA and is referred to as the Authorised Corporate Director (ACD). In practice OEICs only have an ACD. OEICs may be structured as single funds or as umbrella funds with several sub-funds. The sub-funds are separately managed, charged, accounted for and assessed for tax. OEICs may also offer multiple share classes which are designed to meet the needs of different types of investors.	The Ordinance of the Swiss Federal Council on Collective Investment Schemes (Collective Investment Scheme Ordinance, CISO) as well as the Ordinance of the Swiss Federal Banking Commission on Collective Investment Schemes (CISO-SFBC) provide more detailed regulations. The latter also includes detailed investment regulations (e.g. on the use of derivatives, provisions on mandatory publications, auditing, and securities repurchase agreements). Under Swiss investment fund law, an investment fund is defined as being a pool of assets raised from investors as a result of public advertising for the purpose of collective investment, and managed by the fund management company for the account of the investors in accordance with the principle of risk diversification. Hence only funds established on a contractual basis or as an investment company with variable capital (SICAV) are permitted as open-end collective investments schemes in Switzerland. Closed-end collective investment schemes take the form of a limited partnership for collective investment or an investment company with fixed capital (SICAF).	The HKSAR Government's policy towards the securities industry is to provide a favourable environment in the industry and a level playing field for market participants, with adequate regulation to ensure as far as possible, sound business standards and confidence in the institutional framework, but without unnecessary impediments of a bureaucratic or fiscal nature. For the market structure reform, the merger of the two exchanges and three clearing houses was completed on March 6, 2000 following the enactment of the enabling legislation, viz the Exchanges and Clearing Houses (Merger) Ordinance, on February 24, 2000, hence having HKEx as the merged entity becoming a listed company on its own stock market on 27th June 2000.

Regulatory Infrastructure & Rules	**Funds business (cont ...)**	***(ii) Authorised Unit Trust (AUT)*** An AUT is a CIS under which the scheme property is held in trust for the investors by the Trustee who has legal ownership of the scheme property. An AUT is different from a company in that it does not have its own legal personality. There are 3 different categories of authorised funds: - Undertaking for Collective Investment in Transferable Securities (UCITS); - Non-UCITS Retail Schemes (NURS); - Qualified Investor Schemes (QIS).	As regards domestic investment funds, Swiss fund legislation draws a distinction between; securities funds (harmonized with the European fund directive); real estate funds; other funds for traditional and alternative investments. Stock exchanges and markets legislation and ordinances include: (i) Swiss Federal Act of 24 March 1995 on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA); (ii) Swiss Federal Ordinance of 2 December 1996 on Stock Exchanges and Securities Trading (Stock Exchange Ordinance, SESTO); (iii) Ordinance of the Swiss Financial Market Supervisory Authority of 25 October 2008 on Stock Exchanges and Securities Trading (FINMA Stock Exchange Ordinance, SESTO-FINMA); (iv) Swiss Federal Ordinance of 29 September 2006 on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance, CAO). (v) Ordinance of the Swiss Financial Market Supervisory Authority of 30 June 2005 on the Bankruptcy of Banks and Securities Dealers (FINMA Bank Bankruptcy Ordinance, BBO-FINMA);	The Securities and Futures Commission (SFC) regulates the following markets: ***Investment Products***- The SFC reviews and authorises offering documents of retail investment products, pursuant to the Securities and Futures Ordinance (SFO) or the Companies Ordinance; ***Brokers, investment advisers and fund houses*** - The SFC administers the licensing requirements and conducts ongoing supervision of licensed intermediaries; ***Hong Kong Exchanges and Clearing Limited*** - The SFC oversees HKEx, which is also a listed company, to ensure the markets are orderly, informed and fair; ***Listed companies*** - Stock Exchange of Hong Kong is the frontline regulator of listing matters, such as approving listing applications and overseeing listed companies' continuing obligations. The SFC as the statutory regulator helps maintain the quality of disclosure by listing applicants and listed companies under a dual filing system. Also SFC oversee the regulations governing takeovers and mergers of public companies;

			(vi) Ordinance of the Takeover Board on Public Takeover Offers of 21 August 2008 (Takeover Ordinance, TOO); (vii) Regulations of the Takeover Board of 21 August 2008 (Regulations-TB, R-TB).	***Banks*** - Banks that conduct securities and futures activities also have to follow the standards of conduct set by the SFC. Where material breaches of these standards occur the SFC is also responsible for taking enforcement action. The HKMA is the frontline regulator of banks and directly supervises bank staff engaging in securities and futures businesses.

		UK	Switzerland	Hong Kong
Regulatory Infrastructure & Rules	**Insurance**	Insurance Conduct of Business Sourcebook (ICOBS) came into force on 8 January 2008. It applies to a firm with respect to the following activities carried on in relation to a non-investment insurance contract from an establishment maintained by it, or its appointed representative, in the United Kingdom: (i) an insurance mediation activity; (ii) effecting and carrying out contracts of insurance; (iii) managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's; and (iv) communicating or approving a financial promotion.	Insurance legislation and ordinances include: (i) Swiss Federal Act of 17 December 2004 on the Supervision of Insurance Companies (Insurance Supervision Act, ISA); (ii) Swiss Federal Ordinance of 9 November 2005 on the Supervision of Private Insurance Companies (Insurance Supervision Ordinance, ISO); (iii) Ordinance of 9 November 2005 of the Swiss Financial Market Supervisory Authority on the Supervision of Private Insurance Companies (FINMA Insurance Supervision Ordinance, ISO-FINMA); (iv) Swiss Federal Act of 2 April 1908 on Insurance Contracts (Insurance Contract Act, ICA); (v) Swiss Federal Ordinance of 1 March 1966 on the Lifting of Restrictions on the	The Office of the Commissioner of Insurance (OCI) is the regulatory body set up for the administration of the Insurance Companies Ordinance (Cap 41). The Office of the Commissioner of Insurance was established in June 1990. The Office is headed by the Commissioner of Insurance who has been appointed as the Insurance Authority for administering the Insurance Companies Ordinance. The relevant legal framework for the regulation of insurers is provided by the Insurance Companies Ordinance (Cap 41), and its subsidiary legislation including Insurance Companies (Determination of Long Term Liabilities) Regulation, Insurance Companies (Margin of Solvency) Regulation and Insurance Companies (General Business) Regulation. The same Ordinance

Regulatory Infrastructure & Rules	Insurance (cont …)		Freedom of Contract in Insurance Contracts.	also provides a legal backing for the self-regulatory system of insurance intermediaries.
		ICOBS represents part of the FSA's move to more principles-based regulation (MPBR). The reduction in prescriptive regulation places more responsibility on firms to determine how to comply with high-level rules, such as those contained in the FSA Principles for Businesses.	***Life insurance*** The main tasks involved in supervising life insurers are: granting licences to conduct insurance activities; reviewing and approving business plans; monitoring insurance activities on an ongoing basis; examining annual reports; checking solvency (Solvency I and the Swiss Solvency Test, SST); reviewing and evaluating all relevant risks; approving mergers, portfolio transfers and the outsourcing of functions; checking reports on tied assets; implementing supervisory measures to protect insured persons against abusive practices and solvency risk; withdrawal of licences when insurance activities are discontinued; and organising run-offs and release from supervision.	Section 25A of the Insurance Companies Ordinance (Cap.41) requires an insurer carrying on general business, other than a professional reinsurer and a captive insurer, to maintain assets in Hong Kong of an amount which is not less than the aggregate of 80% of its net liabilities and the solvency margin applicable to its Hong Kong general business. The objective is to ensure that, in the event of insolvency of an insurer, assets will be available in Hong Kong to meet the claims of Hong Kong policy holders. These claims are accorded a preferential status under Hong Kong's insolvency law to those of ordinary creditors.
		A new set of rules and guidance covering the sale and administration of non-investment insurance was adopted by the Financial Services Authority in December 2007. Non-investment insurance covers all general insurance. It also covers most life insurance that does not have an investment or surrender value, apart from long-term care insurance. The FSA refers to noninvestment life insurance as 'pure protection'.	***Non-life insurance*** FINMA supervises private insurers engaged in accident and health insurance. The purpose of insurance supervision by FINMA is primarily to protect insured persons against abusive practices and the risk of insurance companies becoming insolvent. Supervision is complemented by quantitative and qualitative instruments; these are the Swiss Solvency Test (SST), used to calculate insurers' capital	The minimum paid-up capital is currently HK$10 million, or HK$20 million for a composite insurer (carrying on both general and long term business) or for an insurer wishing to carry on statutory classes of insurance business or HK$2 million for a captive insurer.

Regulatory Infrastructure & Rules	Insurance (cont ...)		requirements according to their risk profile, and the Swiss Quality Assessment (SQA), which focuses on issues such as corporate governance, risk management and internal control systems (ICS).	
			Reinsurance The business conducted by reinsurers is different from that conducted by direct insurers. The most obvious distinction is that reinsurers' clientele consists solely of legal entities. The Insurance Supervision Act (ISA), which also governs reinsurance companies, takes account of these differences. The regulations on tied assets do not apply to reinsurers, so reinsurance companies have essentially no restrictions on investing their assets provided they comply with general guidelines. With regard to the Swiss Solvency Test (SST), all reinsurers must develop an internal model based on the principles of the SST. Reinsurance captives are released from this obligation as long as their risk structure is below a certain degree of complexity. The risk-based solvency requirement for reinsurance captives exempt from the SST is set using a factor model.	

Regulatory Infrastructure & Rules		UK	Switzerland	Hong Kong
	Pension Funds	The Pensions Regulator is the UK regulator of work-based pension schemes. The Pensions Acts of 2004 and 2008 give the Pensions Regulator specific objectives: - to protect the benefits of members of work-based pension schemes; - to promote good administration and improve understanding of work-based pension schemes; - to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF); and - to maximise employer compliance with employer duties (including the requirement to automatically enrol eligible employees into a qualifying pension provision with a minimum contribution) and with certain employment safeguards.	The Swiss pension system is based on three pillars (Federal Constitution art. 111): ***1st Pillar*** Old-age Insurance (AHV/AVS) and Swiss Invalidity Insurance (IV/AI) together make up the 1st pillar or state pension, which is intended to secure a basic livelihood, together with any supplementary benefits for which the insured may be eligible. The minimum pension for a single person amounts to €8,000 per year and the maximum pension comes to €16,000 per year.	In August 1995, Hong Kong enacted the Mandatory Provident Fund (MPF) Schemes Ordinance, which provides the framework for the establishment of a privately managed, mandatory provident fund system. The ordinance was amended in March 1998 and supplemented by subsidiary regulations enacted in April 1998 and May 1999 respectively, setting out the detailed rules governing the operation of the MPF System and exemption of members covered by certain occupational retirement schemes. As contributions are mandatory, the Government has built into the MPF System a multiplicity of measures to ensure that MPF assets are safe and secure. The measures include stringent criteria for the approval of MPF trustees; prudential supervision to ensure compliance with standards and regulations; smooth and transparent operation of schemes; as well as a compensation fund mechanism to make good losses caused by illegal conduct.

Regulatory Infrastructure & Rules	**Pension Funds (cont ...)**	The Pensions Bill was published on 12th February 2004 and developed themes announced by the Department for Work and Pensions to empower people to take control of their retirement planning. It created the Pension Protection Fund designed to compensate members of defined benefit and hybrid schemes whose employers become insolvent. The Pensions Bill introduced a new Pensions Regulator with aims to make it easier for companies to operate schemes. The implementation of pension reforms is set to begin in October 2012. Once fully operational, all employers will have an obligation to provide and contribute to a pension for their employees on an automatic enrolment basis (dependent on age and earnings). As part of the reforms, National Employment Savings Trust (NEST) will act as a central scheme for employers to use to fulfil their obligation.	***2nd Pillar*** The 2nd pillar is made up of benefits from the pension fund, benefits insured under the Federal Law on Occupational Retirement, Survivors' and Disability Pension plans (Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans LPP), and those insured under the Federal Law on Accident Insurance (UVG/LAA). Together, these two pillars are intended to cover at least 60% of a person's final salary thus enabling them to maintain the standard of living they were accustomed to before retirement. The 1st pillar is mandatory for all. The 2nd pillar is required for employed persons only. All employees with an income beyond a threshold of €16,000 per year are insured mandatory within the occupational pension schemes.	The latest measure to improve the efficiency of the MPF system is the enactment of the Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 in July 2009. Under the legislation, employees may transfer accrued benefits derived from their employee's mandatory contributions during their current employment from a contribution account under a registered scheme on a lump-sum basis to another MPF scheme of their own choice at least once per calendar year. This will encourage more active management of MPF investment by the employees and allow employees access to a broader spectrum of MPF service providers, MPF schemes and funds for investment of mandatory contributions made by them during their current employment so as to promote greater market competition.
		The new employer duties will be introduced in stages over 4 years, starting in 2012. Each employer will be allocated a date from when the duties will first apply to them, known as their 'staging date'. Employers will need to: • Automatically enrol certain workers into a pension scheme; • Make contributions on their workers' behalf;	***3rd Pillar*** The 3rd pillar is a privately-financed personal provision and is voluntary. Unlike normal savings, it brings certain tax advantages and can be used as a means of closing pension gaps.	

Regulatory Infrastructure & Rules	**Pension Funds (cont ...)**	• Register with The Pensions Regulator; • Provide workers with certain information about the changes and how they will affect them.		
		The National Employment Savings Trust (NEST) is a pension scheme with the following characteristics: - It has a public service obligation, meaning it must accept all employers who apply; - It has been established by Government to ensure that employers, including those that employ low to medium earners, can access pension saving and comply with their automatic enrolment duties.		
		All registered pension schemes must have at least one Scheme Administrator. For most schemes, the Scheme Administrator(s) will also be a trustee(s) of the scheme. A Scheme Administrator can appoint a Practitioner to act on their behalf in relation to some of these duties.		
		The Scheme Administrator(s) is responsible for fulfilling certain functions including • registering the pension scheme with HM Revenue & Customs. • operating tax relief on contributions under the relief at source system • reporting events relating to the scheme and the Scheme Administrator to HM Revenue & Customs		

Regulatory Infrastructure & Rules	Pension Funds (cont ...)	• making returns of information to HM Revenue & Customs • providing information to scheme members, and others, regarding the lifetime allowance, benefits and transfers • paying certain tax charges		
		A Scheme Administrator is required to provide to HM Revenue & Customs, without notice, the following if they have anything to return: • Annual Event Report • Quarterly Accounting for Tax Return • Notifying they have ceased to be a Scheme Administrator (required within 30 days of ceasing) • Notifying the Pension Scheme has wound-up (required within 3 months of the date of its wind-up)		
		HM Revenue & Customs may serve a notice on a Scheme Administrator to provide the following • Annual Registered Pension Scheme Return • Annual Audited Accounts • Documents and other information relating to the scheme.		

		It is mandatory to file the following information with HM Revenue & Customs electronically: • Applications to register a pension scheme • Registered Pension Scheme Returns • Accounting for Tax Returns • A Scheme Administrator's Declaration • Event Reports • Notification of Winding-up a Registered Pension Scheme • Notification of Termination of a Scheme Administrator's Appointment.		

Regulatory Infrastructure & Rules		UK	Switzerland	Hong Kong
	Banking business	FSA handbook defines a bank as: - a firm with a Part IV permission [(as defined in section 40(4) of the Act (Application for permission)) a permission given by the FSA under Part IV of the Act (Permission to carry on regulated activities), or having effect as if so given.] which includes accepting deposits, and: (i) which is a credit institution; or (ii) whose Part IV permission includes a requirement that it comply with the rules in GENPRU (General Prudential sourcebook) and BIPRU (Prudential sourcebook for	Banking legislation and ordinances include: (i) Swiss Federal Law of 8 November 1934 on Banks and Savings Banks (Banking Act, BA); (ii) Swiss Federal Ordinance of 17 May 1972 on Banks and Savings Banks (Banking Ordinance, BO); (iii) Swiss Federal Ordinance of 29 September 2006 on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance, CAO) (iv) Ordinance of 21 October 1996 of the Swiss Financial Market Supervisory Authority on Foreign Banks in Switzerland	The HKMA monitors closely the continuing development of banking practices, market environment as well as international regulatory standards and considers in consultation with the banking industry whether any change to the Banking Ordinance is necessary. The Banking (Amendment) Ordinance 2005 (BAO 2005) establishes a legislative framework for implementing the revised capital adequacy framework released by the Basel Committee on Banking Supervision in Hong Kong.

Regulatory Infrastructure & Rules	**Banking business (cont ...)**	Banks, Building Societies and Investment Firms) relating to banks; But which is not a building society, a friendly society or a credit union; - an EEA bank which is a full credit institution.	(FINMA Foreign Banks Ordinance, FBO-FINMA); (v) Ordinance of 30 June 2005 of the Swiss Financial Market Supervisory Authority on the Bankruptcy of Banks and Securities Dealers (FINMA Bank Bankruptcy Ordinance, BBO-FINMA).	
		Tha Banking Act 2009 provides HM Treasury, the Bank of England and the Financial Services Authority with a variety of tools and related powers for dealing with failing banks and certain other types of financial institutions. The Act introduces a new statutory regime to deal with failing banks, including new insolvency and administration procedures. It also makes changes to the governance of the Bank of England and places on a statutory footing the Bank of England's responsibility for financial stability. The Bank of England's oversight of payment systems is also formalised.	The Swiss financial sector is regulated on three levels: (i) several federal laws fix a framework of activity for banks and other traders in securities (the federal banking law, the federal law governing stock markets and securities trading, the federal law on collective capital investments, the federal law on money laundering); (ii) the Swiss Financial Market Supervisory Authority (FINMA), as supervisory authority, has decreed circulars specifying in detail the principles fixed by the above-mentioned laws; (iii) with the support of the Swiss Bankers Association and through self-regulation the banks have signed a convention relating to the duty of diligence which imposes strict obligations regarding the identification of an account holder and its beneficial owner. The Swiss Bankers Association has also promulgated directives concerning asset management mandates as well as a code of conduct for securities traders.	Hong Kong maintains a three-tier system of deposit-taking institutions, namely, licensed banks, restricted licence banks and deposit-taking companies. They are collectively known as authorized institutions (AIs) under the Banking Ordinance. Authorized institutions may operate in Hong Kong as either locally incorporated companies or branches of foreign banks. The three-tier structure enables soundly based institutions which do not qualify for a full banking licence to apply for a restricted banking licence or a deposit-taking company registration so as to enter the local deposit taking market or to conduct wholesale and investment banking business. The authorisation criteria for licensed banks, restricted licence banks and deposit-taking companies seek to ensure that only fit and proper institutions are entrusted with public deposits. The licensing criteria are subject to periodic reviews to ensure that they reflect the

Regulatory Infrastructure & Rules	Banking business (cont …)			changing needs of the regulatory environment and are consistent with evolving international standards.
		The FSA Banking Conduct of Business sourcebook (BCOBS) came into force on 1st November 2009. It sets out the high-level rules and guidance by which the FSA regulates retail banking conduct of business. BCOBS applies to UK firms who are authorized to accept deposits in the UK from banking customers, and EEA firms passporting into the UK on a branch basis to carry on that activity. BCOBS contains rules and guidance on: communications with banking customers and financial promotions; distance communications, including the requirements of the Distance Marketing Directive and E-commerce Directive; information to be communicated to banking customers; post sale requirements on prompt, efficient and fair service, moving accounts and lost and dormant accounts; unauthorised and incorrectly executed payments; and cancellation, including the right to cancel and the effects of cancellation. BCOBS applies to accepting deposits to the extent that it does not overlap with the requirements of the Payment Services	In Switzerland the main organ responsible for the regulation of banks and financial markets is the FINMA which functions as an independent federal regulatory authority. Under a dualistic supervisory system the FINMA commissions auditing companies to carry out the actual inspection and auditing of the banks. The Swiss banking industry has a long tradition of self-regulation. In collaboration with the Swiss Financial Market Supervisory Authority (FINMA), their regulatory authority, Swiss banks draw up binding codes of conduct which define what constitutes ethically correct management. One example of a code of conduct is the Agreement on Due Diligence. The FINMA monitors the banks' compliance with these codes of conduct. Compliance with suggested guidelines, on the other hand, is voluntary. The Swiss banking system is based on the model of universal banking as opposed to other banking systems which separate commercial banking from investment banking. Thus all banks can provide all banking services, such as: credit/lending	Only licensed banks may operate current and savings accounts, and accept deposits of any size and maturity from the public and pay or collect cheques drawn by or paid in by customers. Restricted licence banks are principally engaged in merchant banking and capital market activities. They may take deposits of any maturity of HK$500,000 and above. Deposit-taking companies are mostly owned by, or otherwise associated with, banks. These companies engage in a range of specialised activities, including consumer finance and securities business. They may take deposits of HK$100,000 or above with an original term of maturity of at least three months. Depositors in Hong Kong are protected by the Deposit Protection Scheme (DPS). Under the current Scheme, each depositor is entitled to compensation up to a maximum of HK$100,000 in the event of a bank failure. On 1st January 2011 in addition to the increase in the protection limit to HK$500,000 per depositor per bank, the Scheme will also expand the coverage to include deposits pledged as security for banking services. However, as restricted

Regulatory Infrastructure & Rules	Banking business (cont ...)	Regulations (PSRs) relating to payment transactions and payment accounts. This means that, broadly where a retail banking service is not a payment service within the scope of the PSRs, BCOBS applies in full; and where a retail banking service is a payment service within the scope of the PSRs, parts of BCOBS would not apply.	business; asset management and investment advice; payment transactions; deposit business (savings accounts, etc.); securities business (stock exchange transactions); underwriting business (issuing of bonds); and financial analysis. The advantages of universal banking include the ability to spread risk over a greater number of banking businesses and customers from all sectors of the economy.	licence banks and deposit-taking companies are not members of the DPS, deposits placed with these institutions are not covered by the DPS.
		The Government has appointed the FSA as the competent authority for most aspects of the Payment Services Directive (PSD). On 01 November 2009, the UK implemented the PSD through the Payment Services Regulations 2009 (PSRs). All firms providing payment services by way of business must: (i) be FSA authorised or registered, unless they are exempt or eligible to take advantage of the transitional provisions; and (ii) meet the PSR conduct of business requirements. The PSD affects firms providing payment services and their customers. These firms include: banks; building societies; e-money issuers; money remitters; non-bank credit card issuers; and non-bank merchant acquirers.		Authorized institutions have to comply with the provisions of the Banking Ordinance which require them to maintain adequate liquidity and capital adequacy ratios; to submit periodic statistical returns to the HKMA; to adhere to limitations on loans to any one customer or to directors and employees; and to seek the HKMA's approval for the appointment of directors, chief executives and for changes in control. Overseas banks which operate in branch form are not required to hold capital in Hong Kong. They are also not subject to capital ratio requirements or to capital-based limits in large exposures under the Banking Ordinance.

Regulatory Infrastructure & Rules	Banking business (cont …)	The PSRs created a new class of regulated firms known as payment institutions (PIs), who must either be authorised or registered by us. Authorised PIs are subject to prudential requirements. All PIs must comply with the PSR conduct of business requirements.		The legal framework for banking supervision in Hong Kong is in line with international standards including the Basel Committee's Core Principles for Effective Banking Supervision which was published in September 1997 and revised in October 2006. The supervisory process follows a risk-based approach which puts emphasis on the evaluation of the quality of Authorised Institutions internal risk management systems in respect of current and emerging risks they face. The objective is to devise a prudential supervisory system to help preserve the general stability and effective operation of the banking system, but which at the same time provides sufficient flexibility for authorized institutions to take commercial decisions.
		Under the Consumer Credit Act 1974 (CCA) the Office of Fair Trading (OFT) has the function to license, and the power to take enforcement action against most businesses that offer goods or services on credit or which lend money to consumers. This includes overdrafts and the granting of credit in respect of credit cards. The OFT and the FSA are working together to ensure that a consistent and co-ordinated approach is taken under the CCA, FSMA, the PSRs and the Handbook in relation to potential regulatory breaches and to agree which party is best placed to lead in each case. All of this is set out in a Concordat which details the working relationship and division of responsibility between the OFT and the FSA.		

3.3 – Funds statistics & comparative study on Cayman Islands and France

3.3.1 – Fund statistics

Funds		
	Cayman Islands	**France**
Mutual Fund Administrators		600 **
Full	93	-
Restricted	34	-
Exempted	2	-
Securities Investment Business		-
Securities – Registered as Excluded Persons	2,414 *	-
Securities (Full and Restricted Licences)	28 *	-
Trust Companies		*n/a*
Trust Licences	52	-
Restricted Trust Licences	71	-
Nominee Trust Licences	23	-
Total Net Assets of domiciled funds	*n/a*	**€ 1,401,625,000,000**
UCITS market	-	€ 1,210,280,000,000
Non-UCITS market	-	€ 191,345,000,000
Number of Funds (including Sub-funds)		
Domiciled	9,431	11,711
Collective Investment Schemes (incl. subfunds)		
UCITS	-	7,791
Non UCITS	-	3,920
Mutual Funds by type:		
Registered	8,877	-
Administered	430	-
Licensed	124	-

notes:

Data for Cayman islands as at Sep 2011

Data for France as at Dec 2010

* ***Data as at June 2010***

** ***Data as at Aug 2011***

3.3.2 – Funds comparative study on Resources, Reputation, Regulatory Infrastructure & Rules for Cayman Islands and France

		Cayman Islands	France
Resources	Infrastructure - country	• Cayman islands' economy is one of the strongest in the Caribbean and is driven by offshore financial institutions, upscale tourism, and real estate sales and development. • The telecommunications industry was liberalized in 2003 hence increasing competition and services. • The jurisdiction is a sophisticated international financial services centre with a wide array of service providers and high quality professional expertise. • The Cayman Islands has a professional infrastructure of lawyers, accountants, mutual fund administrators, trusts and corporate services practitioners and other financial services professionals. • Private and institutional investors are attracted to the Cayman Islands because of its professional infrastructure, business friendly approach, flexibility, an English common law framework, stability, well regulated regime and tax neutrality.	• France is the largest state in the EU enjoying high standards of living owing to its rich and diversified culture. • French industry is well established and is a world leader in nuclear energy, high fashion, perfume, wine, cheese, nuclear energy and defence. • The communications infrastructure of France also ranks high among advanced countries. • Transport infrastructure in France is one of the most streamlined to be found anywhere in Europe and this makes international freight movements streamlined and effective. A network of various modes of transportation blankets whole France, including air, land, and rail transportation. Transportation is also possible via rivers. The technologically advanced rail system— utilizing some of the fastest trains in the world—is operated by the French National Railways (SNCF), a state-owned company.
	Infrastructure - regulator	• The Cayman Islands Monetary Authority is the islands main financial services regulator which began operations on 1st January 1997. • It was established as a body corporate under the Monetary Authority Law	• The Autorité des Marchés Financiers (AMF) established by the Financial Security Act of 1st August 2003, was formed from the merger of the Commission des Opérations de Bourse (COB), the Conseil des Marchés Financiers (CMF) and the Conseil de Discipline de la Gestion Financière (CDGF). • The Banking Commission, chaired by the Governor of the Banque de France, has investigatory and enforcement powers to ensure that credit institutions and investment firms observe the applicable laws and regulations. The Commission's mission is to protect depositors as well as to act as watchdog over the French banking and financial system to ensure its profitability and financial stability.

Resources	Employees in financial sector	• Employees in financial sector in 2009 totalled to 3,185. • Financial sector contributes 43% of GDP in 2010.	• Employees in the Financial and insurance sector totalled to 873,494.
	Legal profession	• The legal profession is regulated under the Legal Practitioners Law and disciplinary action is by the Grand Court. Under proposed revisions to the Law, disciplinary powers over the legal profession would be exercisable by a practitioners' tribunal. The accounting and audit profession is regulated under the Public Accountants Law, which gives the local professional society disciplinary powers over the profession.	
	Tax treaties	• The Cayman Islands did not, until recently, enter into any Double Tax treaties with other countries. It has, however, entered into limited tax treaties with the UK and New Zealand, and signed a comprehensive tax treaty with Japan in 2010 in addition to several tax information exchange agreements, which have ensured that the jurisdiction no longer features on the OECD's 'grey list' of territories which have not substantially implemented the internationally agreed tax transparency standard. The Cayman Islands signed its twenty-seventh Tax Information Exchange Agreement with China on September 2011.	• France has over 110 double taxation treaties in place.
	Tax structure	• There is no income tax, company or corporation tax, inheritance tax, capital gains or gift tax in Cayman Islands. There are no property taxes or rates, and no controls on the foreign ownership of property and land. However, government raises its revenue from fees and duties. • A number of fees affecting entities in both the offshore and domestic sectors increased in 2006 and 2009. The December 2009 budget announcement proposed that annual company fees for resident, non-resident, exempt and foreign companies would	• The corporate tax in France is an annual tax in principle that affects all profits made in France by corporations and other entities. Corporations domiciled or managed in France are deemed to have full corporation tax liability. This means that their domestic and foreign earnings are all taxable in France. • The standard corporate tax rate is 33.33% (not including the social surcharge). Small or new businesses may benefit from lower rates. A 3.3% social surcharge applies to the standard corporate income tax liabilities if such exceeds EUR 763,000 resulting in an

		Cayman Islands	France
Resources		increase to between KYD150 and KYD500. General Registry fees including certificates, certifications, express filings, new company registrations, filings, name reservations and new company registrations, would also increase.	overall effective corporate tax rate of 34.43%.
	MoUs	• CIMA has entered into bilateral and multilateral MOUs and undertakings with regulatory authorities in the USA, Canada, the Caribbean, Central and South America, the United Kingdom and Europe totalling to 21.	
	Connectivity	• Cayman Airways, British Airways, US and Canadian carriers provide connectivity to a number of cities. Feeder flights such as Virgin Atlantic routes Jamaica.	• There are 155 local airports in France and 6 large international airports. The major airline is Air France, which provides service to all corners of the globe. Many of the ports and harbours are equipped to handle the needs of freight as well as passenger ships.

Reputation		Cayman Islands	France
	World Economic Forum	*n/a*	*World Economic Forum* - The Global Competitiveness report 2011-2012: 18th out of 142 countries in the Global Competitiveness Index; 18th for financial market development; 27th as soundest banking system in the world. *World Economic Forum* - Financial Development Report 2010: Country Profile Highlights: - France maintained its 11th-place ranking in the FDI, with solid scores across most pillars. - Its financial markets took 7th place in the rankings with strength across derivatives (1st), bonds (6th) and foreign exchange (9th).

Reputation			- The country performed less well in banking financial services (23rd), primarily pulled down by the smaller size of its banking sector and the more limited extent of financial information disclosure. - France's financial system has shown a relatively high degree of stability through the recent crisis, yielding an 11th-place ranking in this pillar. - Corporate governance (23rd) represents one development area within France's institutional environment. - The country's business environment displays relative weaknesses in the cost and time involved in registering property (44th and 53rd).
	Global Financial Centres Index	*Global Financial Centres Index 8 (Sep 2010):* 34th place *Global Financial Centres Index 9 (Mar 2011):* 38th place *Global Financial Centres Index 10 (Sep 2011):* 46th place	*Global Financial Centres Index 8 (Sep 2010):* 18th place *Global Financial Centres Index 9 (Mar 2011):* 20th place *Global Financial Centres Index 10 (Sep 2011):* 24th place
	World Bank	*n/a*	*World Bank 'Doing Business' report 2011:* ranked 26th place as ease of doing business.
	Other sources	*FundDomiciles Stability Index for 2011 (Jun 2011): 4th* place as most stable international fund domicile The Cayman Islands has been named the world's premier specialised financial centre, topping The Banker's 2010 IFC ratings for the second year running.	

Regulatory Infrastructure & Rules		Cayman Islands	France
	EU	*n/a*	France is a member state of the European Union, benefiting from the harmonisation of EU financial services regulation, including the UCITS passport and being a participating member of the European Monetary Union. France was one of the six founding members of the European Community in 1957.
	Redomiciliation	The law applicable in the Cayman Islands for inward and outward redomiciliation is the Companies Law (2009 Revision) [Sections 201-209]. Companies that are incorporated outside of the islands may apply to the Registrar to be registered by way of continuation as an exempted company limited by shares under this Law.	-
	Registrar of Companies	There is a Registrar of Companies, and registration involves submission of the Memorandum of Association. For companies limited by shares the Articles of Association can follow.	Companies are registered at the Register of Commerce and Companies. There are numerous types of company structure which are provided for by French Law, however today the great majority of trading entities in France have taken the form either of a Société Anonyme (S.A.) or a Société à Responsabilité Limitée (S.A.R.L). The relatively newly introduced Société par Actions simplifiée (S.A.S) is becoming popular with foreign corporations which are setting up subsidiaries in France.

Regulatory Infrastructure & Rules / Funds Business	Cayman Islands	France
	Activity in the securities sector is governed by two laws: - **Mutual Funds Law** (2009 Revision) which covers investment funds (categories: licensed, administered and registered) and fund administrators (categories: full and restricted) - **Securities Investment Business Law** which covers brokers, investment advisors, investment managers, investment arrangers and market-makers.	The AMF authorises the formation of collective investment schemes, including open-end and closed end funds, venture funds, innovation funds, futures funds and company savings schemes. It ascertains compliance with all legal and regulatory requirements before schemes come to market.
	Mutual Funds Law (MFL) There are three types of mutual funds that are regulated under the Mutual Funds Law: a Registered Fund under Section 4(3); an Administered Fund under Section 4(1)(b); and a Licensed Fund under Section 4(1)(a). ***section 4(1) of the Mutual Funds Law*** *Unless a mutual fund is complying with subsection (3) or is exempted under subsection (4), it shall not carry on or attempt to carry on business in or from the Islands unless-* *(a) it is the holder of a Mutual Fund Licence, and it has-* *(i) a registered office in the Islands; or* *(ii) if a unit trust, a trust company licensed under the Banks and Trust Companies Law (2009 Revision) as its trustee; or* *(b) a licensed mutual fund administrator is providing its principal office in the Islands,* *and, unless an exemption from this requirement has been granted by the Authority, there is filed with the Authority, in respect of the mutual fund, a current offering document that complies with subsection (6).*	Article L. 214-1 of the Monetary and Financial Code provides a complete list of collective investment schemes: (i) Undertakings for collective investment in transferable securities [Articles L214-2 to L214-42] - can take two forms: - the société d'investissement à capital variable (SICAV), or open-end investment companies, which is incorporated as a legal person like any other company. The investors own shares in the SICAV, which are issued as and when subscription orders are received. - the Fonds Communs de Placement (FCP), or unincorporated common fund, where investors own units in the fund. (ii) Securitisation funds [Articles L214-43 to L214-49] - a co-ownership having as its object the acquisition of receivables and the issuing of units which represent those receivables. It may issue debt instruments. (iii) Real-property investment partnerships [Articles L214-50 to L214-84-3] - the acquisition and management of real property for letting.

Regulatory Infrastructure & Rules	Funds Business (cont ...)	Not all mutual funds are regulated. The Mutual Funds Law specifies the categories of mutual fund that are exempt from regulation. ***section 4(3) of the Mutual Funds Law*** *(3) A mutual fund may carry on or attempt to carry on business in or from the Islands without complying with subsection (1) if-* *(a) it is a mutual fund in which-* *(i) the minimum aggregate equity interest purchasable by a prospective investor in the fund is eighty thousand dollars (or its equivalent in any other currency); or* *(ii) the equity interests are listed on a stock exchange (including an over-the-counter market) specified by the Authority by notice in the Gazette;* *(b) unless an exemption from this requirement has been granted by the Authority, there is filed with the Authority the prescribed details in respect of the mutual fund's current offering document;* *(c) it is registered with the Authority in the prescribed manner; and* *(d) the prescribed annual registration fee has been paid in respect of the fund.* ***section 4(4) of the Mutual Funds Law*** *A mutual fund may carry on or attempt to carry on business in or from the Islands without complying with subsection (1) if-* *(a) the equity interests are held by not more than fifteen investors, a majority of whom are capable of appointing or removing the operator of the fund; or* *(b) it is a fund, not incorporated or established in the Islands, which makes an invitation to the public in the Islands to subscribe for its equity interests by or through a person who is the holder of a licence under the Securities Investment Business Law (2004 Revision), for a regulated activity specified by the Authority for the purposes of this subsection and-*	(iv) Forestry-linked savings companies [Articles L214-85 to L214-88] - the acquisition and management of forestry assets with at least 60% of their assets consist of membership shares in forestry groups or companies whose sole purpose is the holding of woods and forests and, and on the other hand, liquid assets or other cash equivalents. (v) Real-property collective investment undertakings. [Articles L214-89 to L214-146] - can take two forms: - a société de placement à propondérance immobilière à capital variable (SPPICAV), or open-end real estate investment company, which is equivalent to a SICAV; - fonds de placement immobilier (FPI), or unincorporated real estate investment fund, equivalent to an FCP.
			The Financial Security Act (no. 2003-706) was passed by the French parliament on 1 August 2003 to address a crisis of investor confidence that first emerged in the USA with the Enron and WorldCom affairs and then spread to France with the likes of Vivendi. The act obliged companies listed in France to abide by financial transparency and risk management rules. It also required them to provide investors with comprehensive information and made their managers more accountable for signing off on the company accounts.

Regulatory Infrastructure & Rules	Funds Business (cont ...)		
		(i) those interests are listed on a stock exchange (including an over-the-counter-market) specified by the Authority by notice in the Gazette; or *(ii) the fund is regulated in a category, and by an overseas regulatory authority, approved by the Authority for the purposes of this subsection.*	
		Set up time per structure: **Registered funds** - Same day registration. Set-up time from establishment to registration is approximately 4-6 weeks depending on complexity and service provider requirements. **Administered funds** – Same day registration. Set-up time from establishment to registration is approximately 4-6 weeks depending on complexity and service provider requirements. **Licensed funds** - Registration is subject to CIMA approval, which generally takes between 4- 6 weeks. Set-up time from establishment to registration is approximately 8-12 weeks.	The Financial Activity Modernisation Act (no. 96-597) transposed the EU Investment Services Directive (93/22/EEC) into French law. Adopted on 2 July 1996, it overhauled the regulation of investment services providers and regulated markets, the activities of which encompassed the entire European Economic Area. In particular, it introduced the concentration requirement, requiring securities trades to be executed on a regulated market.
		To be approved as an administered mutual fund, the fund must have a CIMA-licensed mutual fund administrator providing its principal office. The regulatory responsibility for the administered fund, which has more than 15 investors and which is not a licensed or registered mutual fund, is placed largely in the hands of a licensed Mutual Fund Administrator. Currently, the Authority considers applications for the following types of Mutual Funds Administrators: (i) Full Administrators - can perform administration to an unlimited number of mutual funds; (ii) Restricted Administrator - can provide services for no more than 10 funds, and must receive approval from the Authority for	Investment services providers (ISP) are defined by Article L. 531-1 of the Monetary and Financial Code. They are investment firms and credit institutions that have been authorised to supply investment services within the meaning of Article L. 321-1 (receiving and transmitting orders for third parties, executing orders for third parties, trading for own account, asset management, underwriting and placing). An authorisation is required to perform each of these investment services. The French Prudential Supervisory Authority (Autorité de contrôle prudentiel - ACP) grants this authorisation after receiving the opinion of the AMF, unless the ISP's main business is asset management. In that case, the AMF, and not the ACP, gives the authorisation, with the ISP being designated an asset management company.

Regulatory Infrastructure & Rules	Funds Business (cont ...)	each fund for which they provide administration. It takes approximately four to six weeks to obtain a Mutual Fund Adminstrators license once CIMA receives all required documentation. A Registered Fund must have either a minimum aggregate equity interest of CI$80,000 (US$100,000) purchasable by a prospective investor or the equity interests must be listed on a stock exchange approved by CIMA.	Under Article L. 532-9 of the Monetary and Financial Code, asset management companies are investment firms whose main business is asset management (the service referred to in paragraph 4 of Article L. 321-1 of the Monetary and Financial Code). The AMF gives an authorisation to asset management companies when they are set up. Before granting this authorisation, the AMF checks the following: (i) that the company's registered office and central administration is located in France; (ii) that the company has sufficient initial capital and the required legal form to carry out asset management activities; (iii) that it has provided the names of shareholders with significant equity holdings, along with the amounts of these holdings, to allow the AMF to assesses their qualifications; (iv) that it is actually managed and its policies are determined by individuals having the necessary integrity, qualifications and experience for their positions; (v) a regularly updated programme of operations that corresponds with the planned scale of activity.
		The Cayman Islands has company, trust, partnership and related laws that allow a high degree of flexibility for establishing mutual funds. The four vehicles commonly used for operating mutual funds are: ***Exempted Company*** - The exempted company may redeem or purchase its own shares and may therefore operate as an open-ended corporate fund. Closed-ended corporate funds can also be established using the exempted company and it is a relatively straightforward procedure to convert from one to the other.	Undertakings for Collective Investment in Transferable Securities (UCITS) comply with European Directive 85/611/EEC and have a European passport allowing them to be sold throughout the European Union. Collective investment undertakings in France are called OPCVMs (Organismes de Placement Collectif en Valeurs Mobilières), which include: Sociétés d'Investissement à Capital Variable (SICAVs) and Fonds Communs de Placement (FCPs). The range of French OPCVMs is diversified and has been expanded further to the recent Financial Security Act (loi de la sécurité financière) implemented in August 2003.

Regulatory Infrastructure & Rules	**Funds Business (cont …)**	***Segregated Portfolio Company*** - An exempted company can also be established as a Segregated Portfolio Company (SPC) with protected cells or portfolios. The SPC makes it possible to provide a means for different groups to protect their assets when carrying on business through a single legal entity. ***Unit Trust*** - The unit trust is usually established under a trust deed with the investors' interest held as trust units. ***Exempted Limited Partnership*** - The exempted and limited partnership provides a second unincorporated vehicle and it can be formed as easily as the exempted company or the unit trust.	**General OPCVMs** Certain types of general OPCVMs may choose to adopt the requirements of the European Directive no. 85-611. Funds respecting such conditions are known as coordonné. If not coordonné, the fund may be marketed to French clients only. In November 2003, the number of funds that may be coordonné was expanded. Currently, five types of general OPCVMs may choose to apply the European Directive: • General OPCVM (fonds commun de placement à vocation générale) investing less than 10 percent of its portfolio in other investment funds • Funds of funds investing more than 10 percent of its portfolio in other investment funds • Umbrella funds (OPCVM à compartiments) • Index funds with limited tracking error • Certain structured funds (fonds à formule) More than 10 percent of the fund must be invested in foreign funds, contractual funds, and funds with fewer regulatory restrictions (OPCVM à règles d'investissement allégées) and derivative management funds (FCIMT).
		Securities Investment Business Law (SIBL) The Securities Investment Business Law (2010 Revision) (SIBL) provides for the regulation of persons carrying on securities investment business, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers, in or from the Cayman Islands.	**OPCVM with fewer regulatory restrictions** ARIAs (OPCVM à règles d'investissement allégée) are licensed by the French regulator, Autorité des Marchés Financiers (AMF), and are not required to comply with all the investment restrictions set out in the French Monetary and Finance Code. Said funds are reserved for certain investors and the regulations contain three different categories: (i) Simple ARIA (ii) Leveraged ARIA (ARIAEL) (iii) ARIA of alternative funds.

Regulatory Infrastructure & Rules	**Funds Business (cont …)**	Under the SIBL, the Cayman Islands Monetary Authority is directly responsible for licensing, and for supervision and enforcement in respect of licensees. It is also responsible for the investigation of persons where it believes that they are, or have been, undertaking securities investment business without a licence to do so. Persons engaged in securities investment business must either hold a: - Securities Investment Business Licence, or be - Registered as an Excluded Person.	**Contractual OPCVMs** Regulations with respect to contractual OPCVMs are a combination of general regulations relating to OPCVMs and certain rules that apply to investment mandates. The contractual nature of said types of fund lies in the determination of the investment strategy; the prospectus of the fund is similar to an investment mandate in that it contains specific investment ratios, eligible investments, etc. Such OPCVMs may be marketed only to certain experienced investors. The shares or stock can only be purchased and held by qualified investors or by legal entities or individuals who invest at least EUR 500,000. However, the AMF may authorize the shares or stock to be subscribed by other investors, depending of said investor's nature and the fund's risk level. Contrary to OPCVM ARIAs, contractual OPCVMs are not licensed by the French regulator. However, in the case of both ARIAs and contractual OPCVMs, the asset manager itself must obtain a specific, related license from the regulator.
		CIMA regulates securities investment business in accordance with: (i) the SIBL and its regulations, namely: (a) The Securities Investment Business (Licence Applications and Fees) Regulations, 2003; (b) The Securities Investment Business (Conduct of Business) Regulations, 2003; and (c) The Securities Investment Business (Financial Requirements and Standards) Regulations, 2003; (ii) the relevant rules, guidance, policies and procedures issued by CIMA; and (iii) international supervisory standards issued by the International Organisation of Securities Commissions.	**Specific OPCVMs** There are three principal types of specific OPCVMs: • Employee savings funds (OPCVM d'épargne salariale) that are dedicated to managing funds attributed to employees and invested in the framework of a company-sponsored savings plan. The regulations make a distinction between two types of employee savings funds: diversified funds and funds invested in the employer's shares (whether listed or not). • Derivative management funds (fonds commun d'investissement sur les marchés à terme or FCIMTs). Such funds are restricted to certain qualifying investors because of their relatively high risk (in particular, ability to invest in derivatives at more than 100 percent of their asset value).

Regulatory Infrastructure & Rules	Funds Business (cont ...)	Basic documents required for setting up a fund: • Offering memorandum • Subscription agreement • Constitutional documents (e.g. memorandum and articles of association for a company, limited partnership agreement for a partnership and trust deed for a unit trust) • Investment management agreement • Administration agreement • Prime brokerage/custodian agreement • Form MF1 for regulated funds, Form MF2 for administered funds or Form MF3 for licensed funds • Consent letter from the auditor • Consent letter from the administrator • Organisational and directors'/ general partner's/ trustee's resolutions • For licensed funds, questionnaire, affidavit of no conviction and personal references for each director.	• Venture capital funds (OPCVM de capital investissement). Such funds must maintain a minimum percentage of investment in unlisted securities. There are four types of venture capital funds: (i) wide distribution FCPRs; (ii) innovation funds (funds invested in unlisted companies classified as eligible by the national agency for research); (iii) Regional funds (to assist in the development of small to midsize regional companies); (iv) FCPRs with fewer regulatory restrictions that are available only to experienced investors.

Section 4: Recent Developments

4.1 - General Financial Services Business

Luxembourg

Luxembourg stock exchange reinforces its lead in Global Depositary Receipts (GDRs) ***(published 22/07/2011)***

The Luxembourg Stock Exchange has reached the milestone of 250 issuers of depositary receipts. Depositary receipts are instruments used predominantly by companies in emerging economies to enable them to gain access to international capital markets and raise capital abroad. In terms of the number of issuers, and based on current data from the various stock markets, the Luxembourg Stock Exchange is the leading exchange in Europe for these instruments and is in second position worldwide behind the New York Stock Exchange (306 issuers) but ahead of the London Stock Exchange (196 issuers) and Nasdaq (106 issuers).
http://www.lff.lu/finance/news/news-detail/browse/1/article/luxembourg-stock-exchange-welcomes-250th-issuer-of-gdrs/21/

Ireland

Central Bank Publishes Revised Consumer Protection Code ***(published 19/10/2011)***

The Central Bank of Ireland published a revised Consumer Protection Code (2012 Code), which comes into effect in January 2012 for regulated entities including banks, insurance and investment companies and intermediaries. The revised Code increases the protections for consumers in a number of key areas: arrears handling; contact with consumers; mis-selling of products; vulnerable consumers; mortgage lending; transparency; and errors and complaints resolution.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankPublishesRevisedConsumerProtectionCode.aspx

Central Bank Announces New Fitness and Probity Regime ***(published 01/09/2011)***

The Central Bank of Ireland published its Regulations and Standards of Fitness and Probity under Part 3 of the Central Bank Reform Act 2010. The Act gave the Central Bank wide ranging powers across the financial services industry to: approve or veto the appointment of people to certain positions; investigate and where appropriate remove or prohibit certain position holders; and set statutory standards of fitness and probity across the financial services industry.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankAnnouncesNewFitnessandProbityRegime01Sep.aspx

Central Bank publishes New Corporate Governance Code for Captives ***(published 16/08/11)***

The Central Bank of Ireland published its Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings which sets out minimum statutory requirements on how captives should organise the governance of their institutions including membership of the Board of Directors and the role and responsibilities of the Chairman and captive manager/CEO. The requirements will apply to all captives with effect from 1 September 2011 with a period of 9 months to 31 May 2012 to implement changes to systems and structures to ensure compliance.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankpublishesNewCorporateGovernanceCodeforCaptives.aspx

Central Bank Announces Appointment of New Deputy Governor *(published 13/07/11)*
The Central Bank of Ireland announced the appointment of Stefan Gerlach as Deputy Governor. He is one of two deputy governors in the Central Bank and will be responsible for central banking functions. Mr Gerlach succeeds Tony Grimes who retired having served most recently as Director General, and then Deputy Governor, since 2007.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankAnnouncesAppointmentofNewDeputyGovernor.aspx

UK – London

Solvency II Cost Benefit Analysis – Executive Summary *(published June 2011)*
This report summarises the key findings of the completion of a cost benefit analysis of introducing Solvency II in the UK insurance industry. The review was developed jointly by the FSA and Ernest & Young, and was completed in line with the FSA's statutory objectives of assessing the expected market and consumer impact of major regulatory changes.
http://www.fsa.gov.uk/pubs/other/ey-solvencyii-cba.pdf

Coutts fined £6.3m for failings relating to its sale of an AIG fund (*published 8/11/11)*
The Financial Services Authority (FSA) has fined Coutts & Company (Coutts) £6.3m for failings in connection with the sale of the AIG Enhanced Variable Rate Fund. Coutts has also agreed to carry out a past business review, overseen by an independent third party in relation to all customers who remained invested at 15 September 2008 and will compensate all customers who have suffered a loss as a result of its failings.
http://www.fsa.gov.uk/pages/Library/Communication/PR/2011/093.shtml

FSA decides to fine firm £8m for market abuse (*published 31/08/11)*
The Financial Services Authority (FSA) has today published a decision notice for Swift Trade Inc indicating that it has decided to fine Swift Trade £8m for market abuse. Swift Trade has referred the matter to the Upper Tribunal where it and the FSA will present their case. In the decision notice dated 6 May 2011, the FSA set out its decision to fine Swift Trade, a non FSA authorised Canadian company with global operations, for systematically and deliberately engaging in a form of manipulative trading known as "layering".
http://www.fsa.gov.uk/pages/Library/Communication/PR/2011/075.shtml

Switzerland

Structured products: FINMA report identifies shortcomings in protecting investors *(published 9/12/11)*
A review conducted by FINMA has shown that buyers of structured products are not adequately protected. Most of the prospectuses and the sales documentation are not easy to understand, too long and not structured in a uniform manner. From FINMA's viewpoint, the statutory regulations must therefore be improved. As proposed by FINMA as part of the ongoing, partial revision of the Collective Investment Schemes Act, providers should be subject to clear rules of conduct. They should therefore be required to provide full transparency on their products.

Federal Council re-elects FINMA's Board of Directors *(published 14/11/11)*
The Federal Council has elected the members of the Swiss Financial Market Supervisory Authority FINMA Board of Directors: it confirmed the re-election of the board members standing for re-election and appointed three new members, Yvan Lengwiler, Joseph L. Rickenbacher and Eddy Wymeersch, to the board. FINMA's Board of Directors will thus comprise nine members as of January 2012.
http://www.finma.ch/e/aktuell/Pages/mm-erneuerungswahl-vr-201111114.aspx

Hong Kong

SFC welcomes announcement of RQFII pilot scheme *(published 16/12/11)*

The Securities and Futures Commission (SFC) welcomes the pilot scheme jointly announced by the China Securities Regulatory Commission (CSRC), People's Bank of China and State Administration of Foreign Exchange to allow Hong Kong subsidiaries of qualified fund managers and securities companies to channel renminbi (RMB) raised in Hong Kong to have the opportunity to invest in Mainland securities markets.

http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=11PR154

Amendments take effect on evidential requirements for proving professional investor status *(published 16/12/11)*

The Securities and Futures Commission (SFC) announced today that the Securities and Futures (Professional Investor) (Amendment) Rules 2011 (Amendment Rules) have come into effect.

http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=11PR153

Consultation begins on proposed regulatory regime for OTC derivatives market *(published 17/10/11)*

The Hong Kong Monetary Authority (HKMA) and Securities and Futures Commission (SFC) have issued a joint consultation paper on the proposed regulatory regime for Hong Kong's over-the-counter (OTC) derivatives market, in accordance with commitments made by the G20 leaders in September 2009 to carry out reform in that area. The HKMA and SFC are mindful that the local OTC derivatives market is relatively small compared with other major markets and the OTC derivatives market is global in nature. Hence, the focus has been on developing a regime that is on a par with international standards but takes into account local market conditions and characteristics. This article gives a brief overview of the main proposals in the consultation paper.

http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=11PR129

Guernsey

GFSC signs Statement of Cooperation with the China Banking Regulatory Commission (*published 2/12/11)*

China's banking authority, the China Banking Regulatory Commission, and the Guernsey Financial Services Commission have signed a Statement of Cooperation, which provides a framework for broader and closer regulatory cooperation between the two supervisory authorities.

http://www.gfsc.gg/The-Commission/News/Pages/GFSC-signs-Statement-of-.aspx

GFSC signs Memorandum of Understanding with German Supervisory Authority *(published 31/08/11)*

The Guernsey Financial Services Commission and Germany's banking, insurance and securities regulator, BaFin, have signed a Memorandum of Understanding (MoU), which provides a framework for enhanced cooperation between the two supervisory authorities.

http://www.gfsc.gg/The-Commission/News/Pages/GFSC-signs-Memorandum-of-Understanding.aspx

Jersey

Memorandum of Understanding with the French Banking Regulator *(published 27/07/11)*

The Jersey Financial Services Commission and the French banking regulator, the Autorité de Contrôle Prudentiel, have signed a Memorandum of Understanding that will help facilitate co-operation between the two regulatory bodies.

http://www.jerseyfsc.org/the_commission/general_information/press_releases/release271.asp

Isle of Man

Isle of Man Finance Partnership unites with APSP to promote pensions sector *(published 21/10/11)*

The Isle of Man Finance Partnership has joined forces with the Isle of Man Association of Pension Scheme Providers (APSP) to increase the promotion of the Isle of Man as a leading domicile for international pensions. The APSP will work with the Department of Economic Development's recently launched Public/Private Sector initiative to increase the awareness of the Isle of Man's unique pensions capabilities with the aim of further increasing the flow of pensions business and attracting new pensions practitioners to the Island.
http://www.gov.im/iomfinance/media/ViewNews.gov?page=lib/news/iomfinance/isleofmanfinance.xml&menuid=11570

France

ACP and AMF tighten requirements for handling customer complaints in the financial sector *(published 15/12/11)*

Through on-site inspections, a review of the customer protection data appended to internal control reports, and an analysis of information received by the Assurance Banque Épargne Info Service helpline, among other sources, reveal that certain complaint submission and handling procedures do not do enough to protect customers. To improve industry practices, the Autorité de Contrôle Prudentiel (ACP) and the Autorité des Marchés Financiers (AMF) decided to take joint action in this area through their Joint Unit. Moreover the AMF is also acting on the findings of a report on compensation schemes for savers and investors. The work done by the ACP and AMF is intended to provide customers with assurance that they will receive clear and transparent information about complaint handling procedures and as well as easy access to the complaint handling system; their complaints will be dealt with in an effective, fair and standardised manner; and financial institutions will take corrective measures to address problems highlighted through complaints handling.
http://www.amf-france.org/documents/general/10269_1.pdf

A New Ombudsman for the Autorité des Marchés Financiers *(published 18/11/11)*

Marielle Cohen-Branche was appointed Autorité des Marchés Financiers Ombudsman as of 16 November 2011. Marielle Cohen-Branche will be supported in her mission by a team of legal experts coordinated by François Denis du Péage, Head of the Ombudsman's Unit within the Retail Investor Relations Division, and will report directly to the AMF Chairman. This new organisation is part of the effort to reinforce the role of mediation in line with the AMF Strategic Plan.
http://www.amf-france.org/documents/general/10228_1.pdf

The AMF opens an investigation after Standard & Poor's dissemination of mistaken information *(published 10/11/11)*

The AMF Secretary General opened an investigation after the rating agency Standard & Poor's indicated that it had mistakenly sent a message announcing a downgrade of France's credit rating to some of its clients. The AMF also contacted the European Securities and Markets Authority (ESMA), as it is under its jurisdiction to ensure that rating agencies meet their professional obligations.
http://www.amf-france.org/documents/general/10209_1.pdf

4.2 - Fund business

Luxembourg

Luxembourg prepares for AIFMD - Law on Specialized Investment funds to be adapted *(published 18/07/11)*

On 1 July 2011, the Luxembourg Government approved a draft bill of law modifying the law on Specialized Investment Funds (SIF), the investment vehicle of choice for non-UCITS in Luxembourg. Although not yet the official transposition act, this bill purports to adapt the SIF legislation to certain aspects of AIFMD, notably in terms of delegation and risk management as well as integrate certain improvements (such as cross-compartment investments) that were previously introduced for UCITS.
http://www.alfi.lu/publications-statements/press-releases/luxembourg-prepares-aifmd-law-specialized-investment-funds-be

Ireland

Leading Chilean lawyer clarifies status of Irish UCITs in Chile (published 15/09/11)

Following the recent move by the Chilean pension regulator, the Comisión Clasificadora de Riesgo (CCR), that resulted in a change in the classification of Irish domiciled UCITS funds from the General Investment Category to the Restrictive Investment Category, one local legal expert has spoken out to say that the CCR ruling "had not resulted in Irish domiciled funds becoming ineligible investments for Chilean pension funds".
http://www.irishfunds.ie/media-centre/latest-news/44-leading-chilean-lawyer-clarifies-status-of-irish-ucits-in-chile/

Switzerland

Partial revision of the FINMA Stock Exchange Ordinance to become effective *(published 20/12/11)*

The revised FINMA Ordinance on Stock Exchanges and Securities Trading (SESTO-FINMA) conducted by the Swiss Financial Market Supervisory Authority will enter into force as planned on 1 January 2012. The partially revised FINMA Stock Exchange Ordinance allows foreign collective investment schemes that are not authorised for distribution to disclose their participations under the same provisions as Swiss collective investment schemes. To do so, they must fulfil certain requirements for independence and declare them to the Disclosure Office.
http://www.finma.ch/e/aktuell/Pages/mm-teilrevision-boersenverordnung-20111220.aspx

France

The Autorité des Marchés Financiers updates its policy on collective investment schemes *(published 23/12/11)*

The Autorité des Marchés Financiers has updated three existing policy guides on collective investment schemes, namely the guide to regulatory documents for collective investment schemes (OPCVM) and real-estate collective investment schemes (OPCI) explaining how to draw up the KIID and prospectus for such schemes; the good practice guide to drafting commercial documents and distributing collective investment undertakings; and the good practice guide to monitoring collective investment undertakings in order to inform asset management companies, depositaries and statutory auditors of the way certain aspects of the regulations should be interpreted.
http://www.amf-france.org/documents/general/10275_1.pdf

AMF publishes instructions, completing transposition of the UCITS IV Directive *(published 21/12/11)*

Further to the transposition of the UCITS IV Directive, the AMF instructions governing the authorisation and operation of UCITS, non-UCITS and real estate collective investment schemes have been amended and now incorporate all the new measures introduced into French law. The main new measures introduced in the instructions are: cross-border mergers for UCITS; cross-border master-feeder funds for UCITS; the new passporting procedure in France for foreign UCITS; replacement of the simplified prospectus with the Key Investor Information Document (KIID) for all collective investment schemes targeting retail investors; and the establishment of SICAVs and SPPICAVs (open-ended real estate investment companies) as simplified joint stock companies. Moreover clarification was additionally provided on exchange-traded funds.
http://www.amf-france.org/documents/general/10276_1.pdf

Extension of the ban on the taking of net short positions in ten French securities of the financial sector *(published 10/11/11)*

The Board of the Autorité des Marchés financiers (AMF) reassessed in early November 2011 the ban on the taking of net short positions in ten French securities of the financial sector. The Board of the AMF considered that the market conditions were not satisfactory to lift the ban. As a consequence thereof, the ban on the taking of net short positions and on the increasing of existing net short positions, in relation to the equity securities and the securities giving access to the share capital of the following credit institutions and insurance companies remains unchanged.
http://www.amf-france.org/documents/general/10201_1.pdf

4.3 - Insurance business

Guernsey

Insurance Papers from the Commission *(published 21/12/11)*

The Commission has recently published several papers on its website. The article contains links on ‘Review of Own Solvency Capital Assessments of Life and Non-Life Licensees’; ‘Technical Note on Stress Testing’; ‘Guidance Note on Actuarial Requirements and Standards’; and ‘Gross Assets, Net Worth and Premiums Written by International Insurers’.
http://www.gfsc.gg/The-Commission/News/Pages/Insurance-Papers-from-the-Commission.aspx

Bermuda

Bermuda regime achieves alignment with key Solvency II principles *(published 17/08/11)*

EIOPA indicates that Bermuda’s regime for commercial insurers, that is Class 3A, 3B and 4 firms, meets the criteria for Solvency II equivalence, with certain regime enhancements requirements.
http://www.bma.bm/uploaded/168-News-110817_BMA_Press_Release_-_Bermuda_Regime_and_Solvency_II_Equivalence.pdf

UK - London

Insurance Contract Law ***(published December 2011)***

The Consumer Insurance (Disclosure and Representations) Bill was introduced in the House of Lords under the Special Bills Procedure in May 2011. The Bill is to receive Royal Assent in the first half of 2012. A second consultation on post contractual issues has been opened in December 2011. The main drivers behind the support for reform are to give a fairer deal to policyholders particularly to the law of misrepresentation, non-disclosure and breach of warranty; to act as a recognition that archaic and uncertain law is in some respects impeding the effective conduct of business; and as a concern that the current law may weaken the position of the United Kingdom should harmonisation of European insurance contract law become a reality.
http://www.justice.gov.uk/lawcommission/areas/insurance-contract-law.htm

4.4 - Banking business

Ireland

Central Bank publishes Impairment Provisioning and Disclosure Guidelines ***(published 20/12/11)***

The Central Bank of Ireland today published guidelines for the Covered Institutions to follow in the development and application of their impairment provisioning frameworks. The paper 'Impairment Provisioning and Disclosure Guidelines' sets out the policies, procedures and disclosures which the Covered Institutions should adopt for their loan asset portfolios which are subject to impairment review in accordance with IAS 39.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankpublishesImpairmentProvisioningandDisclosureGuidelines.aspx

Central Bank introduces revised requirements for lenders dealing with SMEs in financial difficulties ***(published 4/11/2011)***

The Central Bank of Ireland published a revised statutory Code of Conduct for business lending to Small and Medium Enterprises (SME Code) setting out new requirements for lenders when dealing with SMEs in, or facing, financial difficulties. The SME Code revisions build on the Central Bank's on-going programme of work for protecting the interests of borrowers in or facing arrears.
http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankIntroducesRevisedRequirementsforLendersDealingwithSMEsinFinancialDifficulties.aspx

Statement – EBA Capital Exercise ***(published 26/10/11)***

The Irish banks involved in the 2011 EU-wide stress test (Bank of Ireland, AIB and Irish Life & Permanent) have been included in the capital exercise, published today by the EBA. The results show that the Irish banks do not require any additional capital. Irish banks have been recapitalised, following the Prudential Capital Assessment Review (PCAR) process in March 2011, and are required to maintain a minimum Core Tier 1 Ratio of 10.5% on an on-going basis.
http://www.centralbank.ie/press-area/press-releases/Pages/Statement%e2%80%93EBACapitalExercise.aspx

Settlement Agreement between the Central Bank of Ireland and Goldman Sachs Bank (Europe) plc *(published 12/09/11)*

The Central Bank of Ireland has entered into a Settlement Agreement with effect from 8 September 2011 with Goldman Sachs Bank (Europe) plc, a regulated financial service provider in relation to breaches of regulation 16(3) of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992.
http://www.centralbank.ie/press-area/press-releases/Pages/SettlementAgreementbetweentheCentralBankofIrelandandGoldmanSachsBank(Europe)plc.aspx

Statement on Transfer of Irish Nationwide Building Society Functions to Anglo Irish Bank *(published 01/07/11)*

The Central Bank of Ireland notes the decision by the High Court to approve the transfer of the functions of Irish Nationwide Building Society to Anglo Irish Bank. As a result of this transfer mortgage accounts are being transferred to Anglo Irish Bank. Anglo Irish Bank has confirmed that the existing terms and conditions of mortgages and accounts transferring from Irish Nationwide to Anglo Irish Bank remain the same and will be unaffected by the transfer.
http://www.centralbank.ie/press-area/press-releases/Pages/StatementonTransferofIrishNationwideBuildingSociety.aspx

UK

FSA moves to raise consumer awareness of deposit protection (*published 14/12/11)*

The Financial Services Authority (FSA) is planning to make it obligatory for all banks, building societies and credit unions in the UK to prominently display how much compensation savers could claim in the event of an institution failing and where from. This information would be shown in every branch and all websites.
http://www.fsa.gov.uk/pages/Library/Communication/PR/2011/112.shtml

Switzerland

New capital adequacy rules for Swiss banks *(published 24/10/11)*

Switzerland intends to implement the capital adequacy rules of the international Basel III framework for all banks. The Federal Department of Finance FDF is submitting the amended Capital Adequacy Ordinance for consultation, and FINMA is doing likewise with its adapted circulars.
http://www.efd.admin.ch/dokumentation/medieninformationen/00467/index.html?lang=en&msg-id=41891

Section 5: Current Issues

5.1 - Risks of European ETFs

The growth of ETFs and the legal limitations imposed on the fund structure in most jurisdictions, notably those relating to diversification and eligible assets have lured products structured as debt obligations to exchanges.

The European ETF market is mostly institutional; retail participation is under-developed, not least because distributors have long been allowed to channel investors towards products with high commissions. However, European and country-level initiatives aimed at removing or disclosing conflicts of interest in retail distribution are expected to fuel investor interest in ETF markets.

Regulators have voiced concerns about the ability of retail investors to understand differences in product types, investment strategies and risks.

The rapid growth and innovations in the ETF market has led financial stability organisations and regulators to start looking into the potential risks to ETFs as a matter of precaution. The key areas highlighted for attention have been counterparty risk, liquidity risk, systemic risk and possible detrimental impacts of ETFs on their underlying markets, potential risks of innovations such as leveraged and inverse ETFs, and the possibility of confusion between ETFs and other ETPs.

ETFs are only a sliver of the fund management industry. Retail investor access to the financial markets in Europe takes place mostly through Packaged Retail Investment Products (PRIPs), which represent a market the European Commission has estimated to be around forty times larger than the overall size of the, mostly institutional, ETF market.

It is therefore surprising to see so much regulatory interest being concentrated on a segment of the European investment management industry that is not only very narrow but also already the most highly regulated (through the UCITS Directive).

The counterparty risk of UCITS ETFs is limited, in particular when it arises from OTC Derivatives transactions. The use of OTC derivatives and securities lending are not only legal but also legitimate to the extent that they facilitate the implementation of a fund's strategy or generate ancillary revenues that benefit investors. However, these activities entail assuming counterparty risk. In the case of OTC derivatives, this risk is strictly limited by UCITS to 10% of the fund's net asset value. Counterparty risk arising from securities lending does not benefit from such a high level of scrutiny at the European level but is limited to 20% through the issuer concentration limit of UCITS. All UCITS can engage in OTC derivatives and securities lending transactions within the same limits as ETFs or synthetic-replication ETFs.

There should be an EU-wide consistent regulation of counterparty risk mitigation. This would apply to both UCITS and non-UCITS investment vehicles to counterparty risk, notably securities lending, repurchase agreements and other economically comparable operations.

There should also be industry-wide standards of transparency with respect to counterparty risk assumed allowing investors to assess the risks taken on in these contexts against the benefits derived.

Investors need more transparency and disclosure consistency with respect to the revenues and costs from ancillary activities. While more disclosures on risk and risk mitigation are required to allow investors to perform their due diligence; more transparency and consistency on revenues and costs from ancillary activities are also needed for cost-benefit analyses.

Disclosure of total returns and total costs is one way to mitigate conflicts of interest and promote value enhancement for investors.

ETFs reflect the liquidity of the underlying to which they give exposure; as all open-ended funds, they are subject to liquidity risk, but the investment policy restrictions and liquidity risk management requirements of UCITS limit the risk and severity of liquidity crises. ETFs should not be blamed for reflecting the liquidity of the underlying assets to which they give exposure. The possibility that large redemptions will create stress on the underlying markets is not at all specific to ETFs, but is common to any open-ended investment fund.

It is doubtful that risks specific to ETFs could cause systemic disruptions on equity, derivatives, or securities lending markets.

Recent consultation paper on UCITS ETFs

At the end of January 2012, ESMA has issued a consultation paper outlining future regulatory framework for UCITS ETFs and other UCITS-related issues. The conditions cover both synthetic and physical UCITS ETFs and detail the obligations to come for UCITS ETFs, index-tracking UCITS, efficient portfolio management techniques, total return swaps and strategy indices for UCITS.

ESMA's proposals reinforce the legal framework applicable to ETFs and other types of UCITS. The aim of the guidelines issued is to enhance investor protection and limit the risk of certain practices by strengthening, in particular, the standards applicable to collateral received in the context of activities such as securities lending. The proposed guidelines also improve the quality of the information provided to investors to allow them to make informed investment decisions. The draft guidelines also help to address concerns arising from the increase in the number of complex products sold to retail investors and will contribute to the convergence of the regulatory framework for these products.

The deadline for the submission of responses to ESMA's consultation paper is 30 March 2012. ESMA expects the final guidelines to be ready for adoption by mid-2012.

The Malta Financial Services Authority (MFSA) has made every effort to ensure that information in this report is reliable and accurate at the time of publishing. However, neither the MFSA nor any of its employees make any express or implied representations or warranties regarding the material and facilities contained or referred to in this report, nor do we accept any liability for any loss or damage whatsoever which may arise in any way out of the use of any of the material or facilities; for errors in or omissions from the material or facilities; or for the accuracy of any information obtained through use of this report. The MFSA shall have no liability for any loss or damage arising out of negligence or otherwise howsoever as a result of use of or reliance on the information on this report.