

REPORT OF THE INVESTOR COMPENSATION SCHEME FOR 2006

INTRODUCTION

In terms of regulation 8 of LN 368 of 2003 (the Investor Compensation Scheme Regulations, 2003), the Compensation Schemes Management Committee of the Investor Compensation Scheme (hereinafter referred to as “the Scheme”) is pleased to present its report on the discharge of its functions and its operations during 2006.

The Scheme’s audited financial statements for 2006 are also attached.

MANAGEMENT COMMITTEE

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by a Management Committee (hereinafter referred to as “the Committee”) appointed by the Malta Financial Services Authority. In terms of article 12 of the Investment Services Act and regulations 3 and 5 of LN 368 of 2003, the Malta Financial Services Authority appointed the Compensation Schemes Management Committee for a period of three years commencing on 1 January 2004. The following persons have served on the Management Committee during 2006:

Chairman

Dr Anton Felice

Members

Prof Andrew Muscat
Mr Benny Borg Bonello
Mr George F Farrugia
Mr Kenneth Farrugia
Mr Rene Saliba
Dr Massimo Vella

Mr Geoffrey Bezzina has served as Secretary of the Committee.

The Management Committee held five meetings during 2006.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2006

The Scheme registered a surplus of Lm7,900 in 2006 compared to Lm 6,434 registered in the previous year. Investment income amounted to Lm14,276, from which Lm6,376 have been spent in management and administration expenses.

Accumulated capital and reserves amounted to Lm304,751. Of the capital and reserves the sum of Lm3,882 is held on deposit as part of the variable contribution of licence holders. A further Lm16,636 is held by participants in a reserve (the “Investor Compensation Scheme Reserve”) which is pledged to the Scheme and is payable on call whenever the Scheme’s funds are inadequate.

FUNCTIONS OF THE SCHEME

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

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

AMENDED REGULATIONS COME INTO FORCE

During the first quarter of the year, the Prime Minister and Minister of Finance, acting on the advice of the MFSA, published and put into force L.N. 36 of 2006 — *Investor Compensation Scheme (Amendment) Regulations, 2006* — which as the title suggests, amends L.N. 368 of 2003 — the Investor Compensation Scheme Regulations, 2003 (“principal regulations”).

Essentially, L.N. 36 of 2006 is intended to bring the principal regulations in line with Directive 97/9/EC on investor-compensation schemes. Towards this objective, there are a number of modifications which include the re-definition of “investor” to include both individuals and small and medium-sized companies (with the exception of those entities defined in the First Schedule). The alignment with the Directive has also led to the redrafting of the exclusions list in the First Schedule of the regulations.

The amendments also contemplate the deletion of the compensation limit in the proviso to regulation 17 and incorporation of revised guidelines in the Second Schedule in respect of the investment of funds in the Investor Compensation Scheme Reserve.

In addition there are a number of minor amendments that improve the legislation.

BUILDING THE FUND

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

Fixed Contributions

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

The Fixed Contribution is established in the Second Schedule of Legal Notice 368 of 2003 at Lm1250 for Category 2 licence holders and at Lm7500 for Category 3 licence holders. The Fixed Contributions for 2006 amounted to Lm46,250.

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

The Management Committee has relied on a statement issued by the Malta Financial Services Authority showing those members of the Malta Stock Exchange who were entitled to set off their previous MSE contributions against their contributions to the Scheme. On the basis of this list, the amount of the set-off effected in 2006 has been of Lm10,000.

Variable Contributions

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

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

The majority of participants have pledged their investments to the Scheme in terms of guidelines which were issued in 2004. More than half of the participants hold the minimum of Lm300 by way of Reserve.

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

The *Statement of changes in net assets/equity* in the attached financial statements gives an explanation of the amounts held by licence holders and pledged in favour of the Scheme. This amounts to Lm16,636. The Statement also shows the variable contribution paid directly to the Scheme. This is indicated as part of the Scheme's net assets and amounts to Lm3,882.

PROTECTION OF FUNDS

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

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

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

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

PROCEDURES FOR THE PAYMENT OF CLAIMS

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

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

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

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

INVESTORS' CLAIMS

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

The Committee is pleased to report that during 2006 there have been no defaults of payments by participating licence holders which give rise to a claim against the Scheme.

CONSULTATION

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

LIST OF PARTICIPANTS

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

During the year, *Azzopardi Investment Management Limited* and *BoV Stockbrokers Limited* voluntarily surrendered their investment services licence and ceased to be participants of the Scheme.



Dr Anton Felice
Chairman – Compensation Schemes Management Committee

3 May 2007

Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2006