

Malta Funds Industry Association



Chairman's Note



Sustained growth TRENDS in MALTA's fund industry.

Judging by the various exchanges I have had with a number of members of the Malta Funds Industry Association as well as members of the legal and audit profession, the third quarter of 2010 has been a relatively active one. This has been in the main driven by new fund set-ups, the setting up of fund management and fund administration companies as well as the incidence of redomiciliation of funds to Malta from various non EU jurisdictions.

However, the industry practitioners have been equally active in monitoring a number of regulatory developments as they unfold. Most pertinent to the funds industry (and still is as for that) is the AIFM Directive and the ramifications that this will have on the funds industry in Malta. Equally so, the developments concerning the UCITS Directive, which will come to fruition in July of 2011 is likewise being followed up with a degree of vigour. One of the core developments concerning the new Directive is the ability for any UCITS Management Company to establish and manage a UCITS platform in any EU member state. This is surely a welcome development

as it will allow UCITS Fund Managers the opportunity to establish their UCITS platform in Malta and manage this from their home jurisdiction. The UCITS framework per se is also attracting the interest of fund managers in the US and in the Gulf who are becoming increasingly interested by these tightly regulated European vehicles and are being viewed as a credible alternative to traditional offshore hedge funds.

Within this context, it is important to highlight that the registration of UCITS in Malta, will be driven by both the regulatory responsiveness as well as that of the practitioners and service providers. It is equally important to maintain Malta's cost competitiveness both insofar as set-up costs are concerned and equally important those related to the ongoing servicing of such fund platforms.

It is clearly evident that a cluster is fast taking shape in Malta's fund industry. In fact, the MFSA's website clearly reveals that currently there are over 70 Category 2 licensed companies and increasingly so the presence of foreign asset management companies is highly visible. Equally important is the increased presence of fund servicing organisations which further strengthens Malta's position as an EU fund domicile. Of interest to note that just under 50% of the funds authorised by the MFSA are administered in Malta...a clear attestation of the quality of service that is being provided by Malta based operators.

Lastly, the performance of the industry over the third quarter augurs well for the last quarter of this calendar year. It is clearly evident that 2010 will follow on the heels of 2009.

Kenneth Farrugia
Chairman

Focus on the Malta Funds Industry

Joseph Camilleri - Head Business Development - Valletta Fund Services Limited

Malta's fund services industry is rapidly growing a reputation as one of Europe's fund domiciles of choice. The ongoing establishment of hedge funds in the area, as well as the Ucits schemes are leading to a growing trend of funds being redomiciled to Malta from non-EU jurisdictions. Malta's eventual accession to the EU places it alongside other EU jurisdictions as an alternative EU domicile for financial services. The Malta Financial Services Authority (MFSA) has a wide-ranging regulatory platform spanning many aspects of the financial services sphere, from investment services to insurance business, trust business and more.

The MFSA has taken an active stance to strengthen the international dimension of Malta's regulatory framework recently. In January of this year, the MFSA signed a Memorandum of Understanding (MoU) with the China Securities Regulatory Commission (CSRC) which allows Chinese Qualified Domestic Institutional Investors (QDII) to invest on behalf of Chinese investors in Malta domiciled investment funds which are regulated by the MFSA. This move opens up MFSA regulated funds to one of the world's largest pools of private capital and permits Chinese domiciled investors to invest in the foreign securities markets via certain fund management institutions, insurance companies, securities companies and other asset management institutions approved by the CSRC. Companies licensed by the MFSA will also be able to access the Chinese Qualified Foreign Institutional Investors (QFII) status and invest directly in China. The major institutions permitted to apply to be a part of this scheme include fund management companies, insurance companies, securities firms and commercial banks with qualifications prescribed by the CSRC and the other relevant regulators. QFIIs are granted an investment quota by the State Administration of Foreign Exchange and, after selecting a Chinese custodian bank and one or more local brokers, can place orders to buy and sell stock in the China A-shares market. The investment scope of a QFII extends to treasury bonds, convertible bonds, corporate bonds, warrants and other financial products approved by the CSRC.

The MFSA has also issued a guidance note regarding shariah-compliant funds, which explains how the legal and regulatory framework established under the Investment Services Act would apply to shariah-

compliant funds established under Maltese law. The note establishes that, whether set up as professional investor funds (PIFs), Ucits or non-Ucits retail funds, shariah funds may be regulated in the same manner as non-shariah funds. The level of disclosure and the applicable conditions would be the same as those that were applicable to the respective category of retail or professional funds.

Impressive and encouraging as these developments are deemed to be for the industry, the growth experienced so far is turning out to be an exponential one as the industry itself is set on unusually sturdy foundations, paving the way for organic growth in the years ahead. Following the first PIFs, which were primarily set up by European based fund managers, the industry is now seeing other fund managers setting up Ucits schemes. The natural progression for this has been the setting up of fund management companies in Malta alongside investment vehicles, with the presence of highly skilled personnel, a healthy legal and regulatory framework and an efficient fiscal regime for corporate entities being additional positive contributors to these developments.

Malta's reputation in the EU's financial sphere has gained momentum, and although the industry is still in the early stage of growth, Malta has today become an option as far as EU fund jurisdictions are concerned. The amount of business that has materialised thus far and the increasing level of enquiries being received regarding redomiciliation to Malta augurs well for the growth of the industry in the future.



Key Information Document under UCITS IV

Anatoli Grech

Business Development Manager - Valletta Fund Management Limited

One of the changes under UCITS IV will be the replacement of the Simplified Prospectus for UCITS with the Key Information Document (KID). The KID is intended to be a concise and focused presentation of information in a standard comparable format for prospective investors of UCITS funds.

While the simplified prospectus introduced in the UCITS III directive was intended to present retail investors with information in a way that they would easily understand, in practice it has proved too complex due to lack of harmonisation across Member States.

The KID seeks to streamline the information presented to investors so that it focuses on the most relevant facts. The information should include the following elements:

1. Description of investment objectives and policy
 - Plain terms [in line with EU Glossary]
 - Disclaimer
2. Risk/reward profile
 - Synthetic risk and reward indicator (SRRRI) [Harmonized calculation methodology]
 - Narrative explanation [list of binding criteria]
3. Charges
 - Entry and exit fees
 - Ongoing charges [Harmonized calculation methodology]
 - Performance fee (if any)
4. Past performance
 - One complete year calendar year information or scenarios
 - Comparison with benchmark
 - Annual update
5. Practical Information

	UCITS III Simplified Prospectus	UCITS IV Key Information Document
Format	No specific requirement	Common format
Content	<ul style="list-style-type: none"> - Brief Presentation (country of incorporation, management company, auditors etc) - Investment information (Investment objective and policies, performance, risk profile) - Economic information (tax, fees paid by fund and by investors) - Commercial information (Subscription, redemption and conversion process, income distributions and NAV publication) - Additional information (Regulator, contact details) <p>Specific local requirements</p>	<ul style="list-style-type: none"> - Identification of UCITS - Short description of investment objectives and policies - Past performance presentation (or scenarios) - Costs and other charges - Risk profile - No civil liability - No supplements except translation requested by distribution countries

EFAMA/ KPMG's European Investment Management Practice UCITS IV Report Finds Numerous Tax Roadblocks to Harmonised European Fund Industry

An industry research report published jointly today by the European Fund and Asset Management Association (EFAMA) and KPMG's European Investment Management practice shows that there are significant tax complications in the new Undertakings for Collective Investment in Transferable Securities (UCITS IV) Directive that prevent the achievement of a harmonised European funds industry. The report identifies critical tax issues and numerous examples of discrimination and inefficiencies across the 27 European Union (EU) Member States.

The report, entitled Analysis of the tax implications of UCITS IV, recognises that the UCITS IV Directive to be implemented by Member States by July 2011 offers considerable scope for re-structuring fund management operations in the EU. The directive introduces six efficiency measures, which could make the European fund industry more competitive and attractive to investors. However, the directive does not deal with critical tax reforms required to enable effective use of the efficiency measures of the directive. EFAMA and KPMG's European Investment Management practice make a number of recommendations to resolve the tax barriers preventing an efficient single market:

- 1 Fund Mergers:** Under UCITS IV it will be possible to carry out cross-border mergers of UCITS funds. Certain Member States currently tax fund mergers at the investor level, which leads to a situation where investors would pay taxes on unrealised gains. In order to make UCITS IV a success, the report recommends that fund mergers should be carried out in a tax-neutral manner at the fund and investor level.
- 2 Management Company Passport:** UCITS IV will make it possible to establish a UCITS fund in one Member State which could be managed from another Member State. In this respect, the main issue is that in certain Member States, the management of a fund cross border could lead to a fund becoming tax resident (and therefore liable for tax) in the Management Company's state of residence. The report recommends that the fund should only be taxable in the country where the fund is established or registered, even if its Management Company is resident elsewhere.
- 3 Master-Feeder Fund Structure:** under UCITS IV, a Feeder fund will be allowed to invest its assets in another fund, a Master Fund. As it currently stands, certain Member States levy withholding taxes on cross-border dividend distributions to

foreign Feeders, or impose tax on redemptions in the country where the Master Fund is located. The report recommends that there should not be tax leakage between the Master and Feeder fund in order for the Master-Feeder structures to become a reality and offer investors a cost effective product.

EFAMA and KPMG's European Investment Management practice recommend the adoption of a tax Directive at EU level that would remove the tax barriers of UCITS IV being fully effective. In particular, it should provide for:

1. Tax neutrality of fund mergers.
2. Uniform rules governing the tax residency of funds and the place of incorporation and registration.
3. Tax neutrality on the flow of cash between Master and Feeder funds.

In the meantime, in the absence of a directive, EFAMA and KPMG's European Investment Management practice encourage each Member State to take the appropriate measures at national level in order to resolve the remaining tax obstacles.

Peter De Proft, Director General of EFAMA, said, "UCITS IV offers great opportunities to the funds industry and is another important step towards a single European market. EFAMA welcomes the six efficiency measures, but in the interests of the funds industry, and particularly its investors, it urges individual Member States to resolve these important tax issues. Otherwise, there is a risk that the objectives of UCITS IV will not be achieved and that the funds industry will not be able to make full use of all the efficiency measures."

Georges Bock, Global Chairman of KPMG's Funds Tax Network, said, "If the EU member states want to achieve their single market ambitions, they need to press at least for a merger directive for investment funds based on the principle of a tax deferral so that investors would only pay tax on mergers of funds once money truly hits their pockets. A deferral would not lead to an ultimate loss of tax revenues for the various EU Member States. It is therefore hopefully possible to reach the required unanimity for the adoption of such a measure."

The report can be downloaded from the EFAMA website at www.efama.org or the KPMG website at www.kpmg.com

Source: European Fund and Asset Management Association (EFAMA) - September 2010

Strong showing for Financial Services in Global Competitiveness Report

Malta has moved into 11th position in financial market development according to the World Economic Forum's Competitiveness Index 2010-2011. Key performance indicators for the financial services sector also confirm the sector's standing as a leading innovator in the Maltese economy.

This ranking is two notches up from the previous year.

The soundness of Maltese banks has been ranked in 10th position (up from 13th). This also means that Malta has effectively retained its joint 5th position in this area if it is considered that there are eight countries tying in the top 10 segment. Malta also moved up from 13th to 12th position (joint 6th) in the assessment carried out on the regulation of securities exchanges and from 12th to 8th position on the strength of auditing and reporting standards.

This year's edition of the WEF Index is based on an assessment of 139 countries. According to the same Report, the Maltese economy has also moved into 50th position worldwide, up from 52nd last year. Malta

also featured strongly on the positive impact of rules on foreign direct investment (7th); the quality of the educational system (20th) and country credit rating (28th). The rankings also confirm that the country is a very safe place to do business in.

The figures for financial services underscore recent performance figures published by the National Statistics Office showing that the financial sector's gross value added in the first 6 months of 2010 has increased by 75% over the same period last year.

Source: MFSA Quarterly Update September 2010

*The Report may be found on the WEF website:
<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>*

Members' Directory

MANAGERS

APS Bank
HSBC Global Asset Management (Malta) Limited
Valletta Fund Management Limited

ADMINISTRATORS

Abacus Fund Administration Limited
Apex Fund Services (Malta) Limited
Calamatta Cuschieri & Co Ltd
Custom House Global Fund Services Ltd
HSBC Securities Services (Malta) Limited
Praxis Fund Services (Malta) Limited
SGGG Fexco Fund Services (Malta) Limited
TMF Fund Administrators (Malta) Limited
Valletta Fund Services Limited

CUSTODIANS

HSBC Bank Malta plc
Bank of Valletta plc
Sparkasse Bank plc

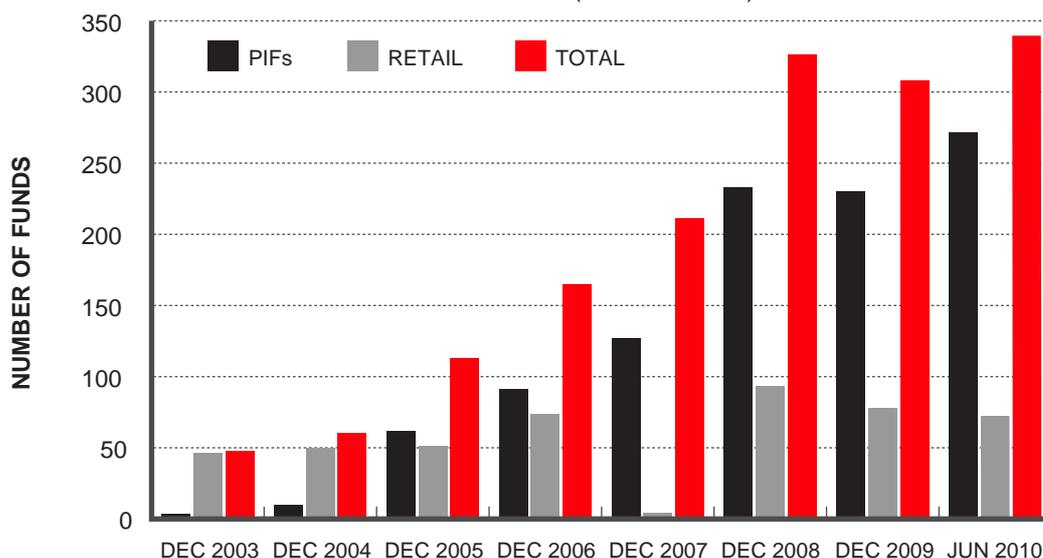
AFFILIATES

Barclays International Investments (Malta) Ltd
Crystal Finance Investments Ltd
GlobalCapital
Growth Investments Limited
Island Financial Services Limited
Jesmond Mizzi Financial Services Limited
M.Z. Investment Services Limited

For details on how to become a member please visit
<http://mfia.org.mt/member2.html>

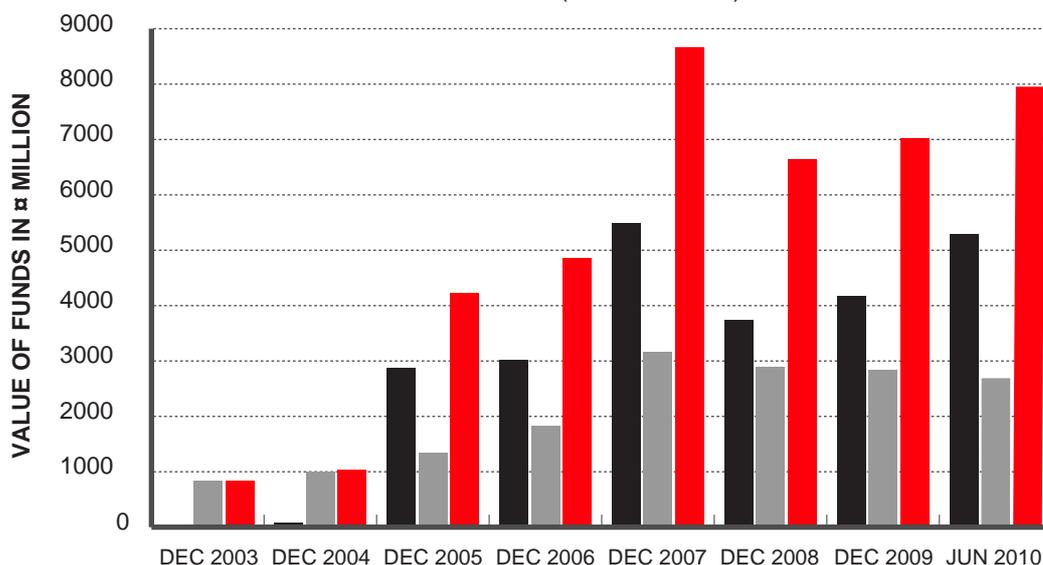
Industry Statistics

FUNDS DOMICILED IN MALTA
in number (Retail vs PIFs)



	DEC 03	DEC 04	DEC 05	DEC 06	DEC 07	DEC 08	DEC 09	JUN 10
PIFs	2	10	62	91	127	233	230	272
Retail	46	50	51	74	4	93	78	72
Total	48	60	113	165	211	326	308	344

FUNDS DOMICILED IN MALTA
in value (Retail vs PIFs)



	DEC 03	DEC 04	DEC 05	DEC 06	DEC 07	DEC 08	DEC 09	JUN 10
PIFs	0	33	2883	3027	5497	3740	4181	5218
Retail	831	1004	1338	1832	3172	2900	2843	2714
Total	831	1037	4221	4859	8669	6640	7024	7932

New Licences Issued June - September 2010

INVESTMENT SERVICES

- Category 1A Investment Services Licence issued to Guardian Securities Limited.
- Category 2 Investment Services Licence issued to Mansard Capital Management Limited.
- Category 2 Investment Services Licence issued to Culross Global Investment Management Limited.

REVISED INVESTMENT SERVICES LICENCES

- Licence issued to Integradvisory Limited has been revised from a Category 1A to Category 2.

INVESTMENT SERVICES MERGERS

- Atlas Investment Services Limited (AISL) and Jesmond Mizzi Financial Services Limited (JMFSL) have merged into Atlas JMFS Investment Services Limited.
- GlobalCapital Fund Advisors Limited (GCFM) has merged into GlobalCapital Financial Management Limited (GCFM).

RECOGNISED FUND ADMINISTRATORS

- Certificate issued to Abacus Fund Administration Limited.

COLLECTIVE INVESTMENT SCHEME LICENCES

Professional Investor Funds targeting Qualifying Investors

- Collective Investment Scheme licence issued to Novium Opportunity Umbrella SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Marlon Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Meridon Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Litmus Umbrella SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Ananea Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Resco Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Polystone SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Mansard Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to DTMR Management SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to NBCG Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Global Fund Holdings SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Specialist Selection Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Resco Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to CTH SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to BlackSun Investments SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Creative Investments SICAV plc in respect of two sub-funds.

Professional Investor Funds targeting Experienced Investors

- Collective Investment Scheme licence issued to PMG Focus Funds SICAV plc in respect of one sub-fund.

UCITS

- Collective Investment Scheme licence issued to Fraternitas SICAV plc.
- Collective Investment Scheme licence issued to Dominion Global Finance Fund SICAV plc.
- Collective Investment Scheme licence issued to Dominion Global Trends SICAV plc.

Private Scheme

- Collective Investment Scheme licence issued to Scotchstone Capital Fund Limited.

Licences Surrendered June - September 2010

COLLECTIVE INVESTMENT SCHEMES

PIFs

- Surrender of licence issued to RBAM II Funds SICAV plc in respect of one sub-fund.
- Surrender of licence issued to NBCG FundSICAV plc in respect of eleven sub-funds.
- Surrender of licence issued to Altma Fund SICAV plc in respect of eleven sub-funds.
- Surrender of licence issued to Amstel Global Umbrella Fund SICAV plc in respect of one sub-fund.

Private Scheme

- Surrender of licence issued to 12P SICAV plc.

INVESTMENT SERVICES

- Surrender of Category 3 Licence issued to AVA International Trading Limited.
- Surrender of Category 3 Licence issued to Atlas International Services Limited.
- Surrender of Category 3 Licence issued to Amarillo Asset Partners Limited.
- Surrender of Category 3 Licence issued to DAM Malta Limited.
- Surrender of Category 3 Licence issued to Greenbay Investments Limited.
- Surrender of Category 3 Licence issued to GlobalCapital Fund Advisors Limited.



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