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**CHECKLIST FOR THE**

**INTERNAL PROCEDURES MANUAL**

**ΤHAT ACCOMPANIES**

**THE APPLICATION OF**

## «……………………………………………………»

**FOR THE GRANTING OF A**

**CIF AUTHORISATION**

**Checklist for the internal procedures manual that accompanies the application of «…………..………» for the granting of a CIF authorisation**

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| **PART Ι** | **COMPLIANCE PROCEDURES** | **L18(2)(a)** |  |
|  | **Compliance function** |  |  |
|  | Policies and procedures designed to detect any risk of failure by the firm to comply with its obligations under the Law, as well as the associated risks | DI5(1) |  |
|  | Measures and procedures designed to minimise risk mentioned in paragraph 1.1 above | DI5(1) |  |
|  | **At the compliance with the above mentioned requirements, a CIF takes into account the nature, scale and complexity of the business of the firm, and the nature and range of investment services and activities undertaken in the course of that business** | DI5(1) |  |
|  | Establishment of a permanent and effective compliance function which operates independently | DI5(2) |  |
|  | Compliance function responsibilities: |  |  |
| 1.5.1 | Monitoring and assessment of the adequacy and effectiveness of the measures and procedures put in place in accordance with the paragraphs 1.1 and 1.2 above, and the actions taken to address any deficiencies in the CIF’s compliance with its obligations under the Law and the Directive | DI5(2)(a) |  |
| 1.5.2 | Advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the CIF's obligations under the Law and the Directive | DI5(2)(b) |  |
|  | Compliance function is able to discharge its responsibilities properly and independently if the following conditions are satisfied: | DI(5)(3) |  |
| 1.6.1 | The compliance function must have the necessary authority, resources, expertise and access to all relevant information | DI(5)(3)(a) |  |
| 1.6.2 | A compliance officer must be appointed and must be responsible for the compliance function and for any reporting as to compliance required by paragraph 2.3 below | DI(5)(3)(b) |  |
| 1.6.3 | The relevant persons involved in the compliance function must not be involved in the performance of services or activities they monitor | DI(5)(3)(c) |  |
| 1.6.4 | The method of determining the remuneration of the relevant persons involved in the compliance function must not compromise their objectivity and must not be likely to do so | DI(5)(3)(d) |  |
|  | A CIF is not required to comply with paragraphs 1.6.3 and 1.6.4 above if it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of investment services and activities, the requirement under that point is not proportionate and that its compliance function continues to be effective | DI(5)(3) |  |
|  | **Responsibility of persons who effectively direct the business of a CIF** |  |  |
|  | Arrangements designed to ensure that when allocating functions internally, CIF’s senior management and the members of the board of directors are responsible for ensuring that the CIF complies with its obligations under the Law | DI9(1) |  |
|  | Arrangements designed to ensure that CIF’s senior management and the members of the board of directors assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations under the Law and the Directive and to take appropriate measures to address any deficiencies | DI9(1) |  |
|  | Arrangements designed to ensure that CIF’s senior management receives on a frequent basis, and at least annually, written reports on the matters covered by paragraphs 1, 17 and 18 indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies | DI9(2) |  |
|  | Arrangements designed to ensure that and the members of the board of directors receive on a regular basis written reports on the same matters | DI9(3) |  |

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|  | **Complaints or grievances handling** |  |  |
| 3.1 | Procedures for the reasonable and prompt handling of complaints or grievances received from retail clients or potential retail clients | DI13 |  |
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| **PART ΙΙ** | **PERSONAL TRANSACTIONS** | **L18(2)(a)** |  |
|  | **Personal Transactions** |  |  |
| 4.1 | Arrangements aimed at preventing the following activities in the case of any relevant person who is involved in activities that may give rise to a conflict of interest, or who has access to inside information within the meaning of section 5 of the Insider Dealing and Market Manipulation (Market Abuse) Law or to other confidential information relating to clients or transactions with or for clients by virtue of an activity carried out by him on behalf of the CIF: | DI15(1) |  |
| 4.1.1 | Entering into a personal transaction which meets at least one of the following criteria: | DI15(1)(a) |  |
|  | i) that person is prohibited from entering into it under the abovementioned law |  |  |
|  | ii) it involves the misuse or improper disclosure of that confidential information |  |  |
|  | iii) it conflicts or is likely to conflict with an obligation of the CIF under the Law |  |  |
| 4.1.2 | Advising or procuring, other than in the proper course of his employment or contract for services, any other person to enter into a transaction in financial instruments which, if a personal transaction of the relevant person, would be covered by paragraph 4.1.1 above or paragraphs 9.2.1 or 9.2.2 below or paragraph 26(3) of the Directive DI144-2007-02 | DI15(1)(b) |  |
| 4.1.3 | Without prejudice to section 9(1)(b) of the Insider Dealing and Market Manipulation (Market Abuse) Law, disclosing, other than in the normal course of his employment or contract for services, any information or opinion to any other person if the relevant person knows, or reasonably ought to know, that as a result of that disclosure that other person will or would be likely to take either of the following steps: | DI15(1)(c) |  |
|  | i) to enter into a transaction in financial instruments which, if a personal transaction of the relevant person, would be covered by paragraph 4.1.1 above or paragraphs 9.2.1 or 9.2.2 below or paragraph 26(3) of the Directive DI144-2007-02 |  |  |
|  | ii) to advise or procure another person to enter into such a transaction |  |  |
| 4.2 | Arrangements designed to ensure, in particular, that: | DI15(2) |  |
| 4.2.1 | Each relevant person covered by paragraph 4.1 above is aware of the restrictions on personal transactions, and of the measures established by the CIF in connection with personal transactions and disclosure, in accordance with paragraph 4.1 above | DI15(2)(a) |  |
| 4.2.2 | CIF is informed promptly of any personal transaction entered into by a relevant person, either by notification of that transaction or by other procedures enabling the CIF to identify such transactions. In the case of outsourcing arrangements the CIF must ensure that the firm to which the activity is outsourced maintains a record of personal transactions entered into by any relevant person and provides that information to the CIF promptly on request | DI15(2)(b) |  |
| 4.2.3 | A record is kept of the personal transaction notified to the CIF or identified by it, including any authorisation or prohibition in connection with such a transaction | DI15(2)(c) |  |
| 4.3 | Paragraphs 4.1 and 4.2 are not applied to the following kinds of personal transaction: | DI15(3) |  |
| 4.3.1 | Personal transactions effected under a discretionary portfolio management service where there is no prior communication in connection with the transaction between the portfolio manager and the relevant person or other person for whose account the transaction is executed | DI15(3)(a) |  |
| 4.3.2 | Personal transactions in units in collective undertakings that comply with the conditions necessary to enjoy the rights conferred by the Open-Ended Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues law or are subject to supervision under the law of a Member State which requires an equivalent level of risk spreading in their assets, where the relevant person and any other person for whose account the transactions are effected are not involved in the management of that undertaking | DI15(3)(b) |  |
| **PART ΙΙΙ** | **CONFLICTS OF INTEREST** | **L18(2)(b)** |  |
|  | **Conflicts of interest potentially detrimental to a client** |  |  |
| 5.1 | For the purposes of identifying the types of conflict of interest that arise in the course of providing investment and ancillary services or a combination thereof and whose existence may damage the interests of a client, arrangements that take into account the question of whether the CIF or a relevant person, or a person directly or indirectly linked by control to the CIF, is in any of the following situations, whether as a result of providing investment or ancillary services or investment activities or otherwise: | DI22 |  |
| 5.1.1 | The CIF or that person is likely to make a financial gain, or avoid a financial loss, at the expense of the client. If applicable please state the leverage policy of the applicant and the measures adopted by the CIF in order to prevent the potential conflict of interests arising between the commercial interests of the CIF offering leveraged products and the interests of a retail client. | DI22(a) |  |
| 5.1.2 | The CIF or that person has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome | DI22(b) |  |
| 5.1.3 | The CIF or that person has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client | DI22(c) |  |
| 5.1.4 | The CIF or that person carries on the same business as the client | DI22(d) |  |
| 5.1.5 | The CIF or that person receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service | DI22(e) |  |
|  | **Conflicts of interest policy** |  |  |
| 6.1 | Conflicts of interest policy set out in writing and appropriate to the size and organisation of the CIF and the nature, scale and complexity of its business | DI23(1) |  |
| 6.2 | Where the CIF is a member of a group, the policy must also take into account any circumstances, of which the CIF is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group | DI23(1) |  |
| 6.3 | The conflicts of interest policy established in accordance with paragraph 6.1 above includes the following content: | DI23(2) |  |
| 6.3.1 | It must identify, with reference to the specific investment services and activities and ancillary services carried out by or on behalf of the CIF, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clients | DI23(2)(a) |  |
| 6.3.2 | It must specify procedures to be followed and measures to be adopted in order to manage such conflicts | DI23(2)(b) |  |
| 6.4 | Arrangements designed to ensure that the procedures and measures provided for in paragraph 6.3.2 above are designed to ensure that relevant persons engaged in different business activities involving a conflict of interest of the kind specified in paragraph 6.3.1 above carry on those activities at a level of independence appropriate to the size and activities of the CIF and of the group to which it belongs, and to the materiality of the risk of damage to the interests of clients | DI23(3) |  |
| 6.5 | For the purposes of paragraph 6.3.2 above, the procedures to be followed and measures to be adopted include such of the following as are necessary and appropriate for the CIF to ensure the requisite degree of independence: | DI23(3) |  |
| 6.5.1 | Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients | DI23(3)(a) |  |
| 6.5.2 | The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the CIF | DI23(3)(b) |  |
| 6.5.3 | The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities | DI23(3)(c) |  |
| 6.5.4 | Measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities | DI23(3)(d) |  |
| 6.5.5 | Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest | DI23(3)(e) |  |
| 6.6 | If the adoption or the practice of one or more of those measures and procedures does not ensure the requisite degree of independence, alternative or additional measures and procedures as are necessary and appropriate for these purpose are adopted | DI23(3) |  |
|  | **Record of services or activities giving rise to detrimental conflict of interest** |  |  |
| 7.1 | Maintenance and regular update of a record of the kinds of investment or ancillary service or investment activity carried out by or on behalf of the CIF in which a conflict of interest entailing a material risk of damage to the interests of one or more clients has arisen or, in the case of an ongoing service or activity, may arise | DI25 |  |
|  | **Marketing communication** |  |  |
| 8.1 | Arrangements designed to ensure that CIF produces or disseminates a recommendation that it is clearly identified as such. | DI26(1) |  |
| 8.2 | Arrangements designed to ensure that any such recommendation contains a clear and prominent statement that (or, in the case of an oral recommendation, to the effect that) it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and that it is not subject to any prohibition on dealing ahead of the dissemination of investment research | DI(26)(2) |  |
|  | **Additional organisational requirements where a CIF produces and disseminates investment research** |  |  |
| 9.1 | In case where the CIF produces, or arrange for the production of, investment research that is intended or likely to be subsequently disseminated to clients of the CIF or to the public, under their own responsibility or that of a member of their group, arrangements designed to ensure the implementation of all the measures set out in paragraphs 6(4) – 6(6) in relation to the financial analysts involved in the production of the investment research and other relevant persons whose responsibilities or business interests may conflict with the interests of the persons to whom the investment research is disseminated | DI27(1) |  |
| 9.2 | Arrangements designed to ensure that the following conditions are satisfied: | DI27(2) |  |
| 9.2.1 | Financial analysts and other relevant persons do not undertake personal transactions or trade, other than as market makers acting in good faith and in the ordinary course of market making or in the execution of an unsolicited client order, on behalf of any other person, including the CIF, in financial instruments to which investment research relates, or in any related financial instruments, with knowledge of the likely timing or content of that investment research which is not publicly available or available to clients and cannot readily be inferred from information that is so available, until the recipients of the investment research have had a reasonable opportunity to act on it | DI27(2)(a) |  |
| 9.2.2 | In circumstances not covered by paragraph 9.2.1, financial analysts and any other relevant persons involved in the production of investment research must not undertake personal transactions in financial instruments to which the investment research relates, or in any related financial instruments, contrary to current recommendations, except in exceptional circumstances and with the prior approval of a member of the CIF’s legal or compliance function | DI27(2)(b) |  |
| 9.2.3 | The CIF itself, financial analysts, and other relevant persons involved in the production of the investment research must not accept inducements from those with a material interest in the subject-matter of the investment research | DI27(2)(c) |  |
| 9.2.4 | The CIF itself, financial analysts, and other relevant persons involved in the production of the investment research must not promise issuers favourable research coverage | DI27(2)(d) |  |
| 9.2.5 | Issuers, relevant persons other than financial analysts, and any other persons must not before the dissemination of investment research be permitted to review a draft of the investment research for the purpose of verifying the accuracy of factual statements made in that research, or for any other purpose other than verifying compliance with the CIF’s legal obligations, if the draft includes a recommendation or a target price | DI27(2)(e) |  |
| 9.3 | A CIF which disseminate investment research produced by another person to the public or to clients is exempted from complying with paragraph 9.1 if the following criteria are met: | DI27(3) |  |
| 9.3.1 | The person that produces the investment research is not a member of the group to which the CIF belongs | DI27(3)(a) |  |
| 9.3.2 | The CIF does not substantially alter the recommendations within the investment research | DI27(3)(b) |  |
| 9.3.3 | The CIF does not present the investment research as having been produced by it | DI27(3)(c) |  |
| 9.3.4 | The CIF verifies that the producer of the research is subject to requirements equivalent to the requirements under this Directive in relation to the production of that research, or has established a policy setting such requirements | DI27(3)(d) |  |
| **PART ΙV** | **CONTINUOUS AND REGULAR PERFORMANCE OF INVESTMENT AND ANCILLARY SERVICES AND INVESTMENTS ACTIVITIES** | **L18(2)(c)** |  |
|  | **CIF’s business continuity policy** |  |  |
| 10.1 | Business continuity policy of CIF aimed at ensuring, in the case of an interruption to its systems and procedures, the preservation of essential data and functions, and the maintenance of investment services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of its investment services and activities.  In the case that the servers are not located onsite (i.e. Cyprus) the business continuity policy should set out the measures that are in place in order for the CIF and/or CySEC to retain continuous and uninterrupted access to the server and to the systems of the CIF. | DI11 |  |
| **PART V** | **OUTSOURCING** | **L18(2)(d)** |  |
|  | **Conditions for outsourcing critical or important operational functions or investment services or activities** |  |  |
|  | Arrangements designed to ensure that a CIF that outsources critical or important operational functions or any investment services or activities, remains fully responsible for discharging all of its obligations under the Law and comply, in particular, with the following conditions: | DI16(1) |  |
| 11.1.1 | The outsourcing does not result in the delegation by senior management of its responsibility | DI16(1)(a) |  |
| 11.1.2 | The relationship and obligations of the CIF towards its clients under the Law are not altered | DI16(1)(b) |  |
| 11.1.3 | The conditions with which the CIF must comply in order to be authorised in accordance with section 6 of the Law, and to remain so, are not being undermined | DI16(1)(c) |  |
| 11.1.4 | None of the other conditions subject to which the CIF's authorisation was granted is being removed or modified | DI16(1)(d) |  |
|  | **In the case that outsourcing would conclude to the transfer of functions of the CIF to such degree which renders the CIF a letter box entity, this is considered to undermine the conditions for authorisation of a CIF, according to Part III of the Law** | DI16(2) |  |

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|  | Arrangements illustrating that the CIF exercise due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical or important operational functions or of any investment services or activities. In particular, measures designed to ensure that the following conditions are satisfied: | DI16(3) |  |
| 11.3.1 | The service provider has the ability, capacity, and any authorisation required by law to perform the outsourced functions, services or activities reliably and professionally | DI16(3)(a) |  |
| 11.3.2 | The service provider carries out the outsourced functions, services or activities effectively, and to this end the CIF establishes methods for assessing the standard of performance of the service provider | DI16(3)(b) |  |
| 11.3.3 | The service provider properly supervises the carrying out of the outsourced functions, services or activities, and adequately manages the risks associated with the outsourcing | DI16(3)(c) |  |
| 11.3.4 | Appropriate action is being taken if it appears that the service provider may not be carrying out the functions, services or activities effectively and in compliance with applicable laws and regulatory requirements | DI16(3)(d) |  |
| 11.3.5 | The CIF retains the necessary expertise to supervise the outsourced functions, services or activities effectively and manage the risks associated with the outsourcing and supervises those functions and manages those risks | DI16(3)(e) |  |
| 11.3.6 | The service provider discloses to the CIF any development that may have a material impact on its ability to carry out the outsourced functions, services or activities effectively and in compliance with applicable laws and regulatory requirements | DI16(3)(f) |  |
| 11.3.7 | The CIF is able to terminate the arrangement for outsourcing where necessary without detriment to the continuity and quality of its provision of services to clients | DI16(3)(g) |  |
| 11.3.8 | The service provider must cooperate with the Commission in connection with the outsourced functions, services or activities | DI16(3)(h) |  |
| 11.3.9 | The CIF, its auditors and the relevant competent authorities have effective access to data related to the outsourced activities, as well as to the business premises of the service provider· competent authorities must be able to exercise this right to access | DI16(3)(i) |  |
| 11.3.10 | The service provider protects any confidential information relating to the CIF and its clients | DI16(3)(j) |  |
| 11.3.11 | The CIF and the service provider establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities, where that is necessary having regard to the function, service or activity that has been outsourced | DI16(3)(k) |  |
|  | The respective rights and obligations of the CIF and of the service provider are clearly allocated and set out in a written agreement | DI16(4) |  |
|  | Where the CIF and the service provider are members of the same group, the CIF may, for the purposes of complying with this paragraph and paragraph 2.2, take into account the extent to which the CIF controls the service provider or has the ability to influence its actions | DI16(5) |  |
|  | **Service providers of operational functions, investment services and activities located in third countries** |  |  |
| 12.1 | In addition to the requirements set out in paragraph 11 above, where a CIF outsources the investment service of portfolio management of retail clients, to a service provider located in a third country, the CIF ensures that the following conditions are satisfied: | DI17(1) |  |
| 12.1.1 | The service provider must be authorised or registered in its home country to provide that service and must be subject to prudential supervision | DI17(1)(a) |  |
| 12.1.2 | There must be an appropriate cooperation agreement between the Commission and the supervisory authority of the service provider | DI17(1)(b) |  |
| 12.2 | Note: If one or both of the conditions mentioned in paragraphs 12.1.1 and 12.1.2 are not satisfied, a CIF may outsource services to a service provider located in a third country only if it gives prior notification to the Commission about the outsourcing arrangement and the Commission does not object to that arrangement within a reasonable time following receipt of that notification | DI17(2) |  |

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| **PART VI** | **ROBUST GOVERNANCE ARRANGEMENTS** | **L18(2)(e)** |  |
|  | **Robust governance arrangements** |  |  |
|  | General organisational requirements related to: |  |  |
| 13.1.1 | Organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities | DI4(1)(a) |  |
| 13.1.2 | Arrangements designed to ensure that the relevant persons are aware of the procedures which are followed for the proper discharge of their responsibilities | DI4(1)(b) |  |
| 13.1.3 | Arrangements designed to ensure that personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them is employed | DI4(1)(d) |  |
| 13.1.4 | Internal reporting and communication of information at all relevant levels of the CIF | DI4(1)(e) |  |
| 13.1.5 | Arrangements designed to ensure that the performance of multiple functions by CIF’s relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally | ΟΔ4(1)(g) |  |
|  | Risk management and compliance functions may be performed by the same person without necessarily jeopardise the independent functioning of each function | DI7 |  |
|  | At the compliance with requirements included in current paragraph, a CIF takes into account the nature, scale and complexity of the business of the firm, and the nature and range of investment services and activities undertaken in the course of that business | DI4(2) |  |
|  | **Accounting policies and procedures** |  |  |
| 14.1 | Accounting policies and procedures that enable CIF, at the request of the Commission, to deliver in a timely manner to the Commission financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules | DI12 |  |
|  | **CIF records** |  |  |
| 15.1 | Adequate and orderly record maintenance of CIF’s business and internal organisation | DI4(1)(f) |  |
|  | **Systems and procedures** |  |  |
| 16.1 | Systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question | DI10 |  |

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|  | **Risk identification, management, monitoring and reporting administration** |  |  |
|  | Risk management policies and procedures which identify the risks relating to the CIF’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the CIF | DI6(1)(a) |  |
|  | Arrangements, processes and mechanisms to manage the risks relating to the CIF’s activities, processes and systems, in light of that level of risk tolerance | DI6(1)(b) |  |
|  | Arrangements designed to monitor: | DI6(1)(c) |  |
| 17.3.1 | The adequacy and effectiveness of the CIF’s risk management policies and procedures | DI6(1)(c)(i) |  |
| 17.3.2 | The level of compliance by the CIF and its relevant persons with the arrangements, processes and mechanisms adopted in accordance with paragraph 17.2 above | DI6(1)(c)(ii) |  |
| 17.3.3 | The adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the CIF to comply with such arrangements, processes and mechanisms or follow such policies and procedures | DI6(1)(c)(iii) |  |
|  | Establishment of an independent risk management function where appropriate and proportionate | DI6(2) |  |
|  | Risk management function tasks: |  |  |
| 17.5.1 | Implementation of policies and procedures referred to in paragraphs 17.1 – 17.3 above | DI6(2)(a) |  |
| 17.5.2 | Provision of reports and advice to senior management according to  paragraph 2.3 above | DI6(2)(b) |  |
|  | Where a CIF is not required under paragraph 17.4 to establish and maintain a risk management function that functions independently, it must nevertheless be able to demonstrate that the policies and procedures that it has adopted in accordance with paragraphs 17.1 – 17.3 above, satisfy the requirements of that paragraphs and are consistently effective | DI6(2) |  |
|  | **Internal Audit** |  |  |
|  | Internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the CIF | DI4(1)(c) |  |
|  | Establishment of internal audit function which is separate and independent from the other functions and activities of the CIF, where appropriate and proportionate | DI8 |  |
|  | Internal audit function responsibilities: | DI8 |  |
| 18.3.1 | Establishment, implementation and maintenance of an audit plan to examine and evaluate the adequacy and effectiveness of the CIF’s systems, internal control mechanisms and arrangements | DI8(a) |  |
| 18.3.2 | Issue recommendations based on the result of work carried out in accordance with paragraph 18.3.1 above | DI8(b) |  |
| 18.3.3 | Verify compliance with the recommendations of paragraph 18.3.2 above | DI8(c) |  |
| 18.3.4 | Report in relation to internal audit matters in accordance with paragraph 2.3 above | DI8(d) |  |
| **PART VΙΙ** | **RECORD OF SERVICES AND TRANSACTIONS** | **L18(2)(g)** |  |
|  | **Record of services and transactions** |  |  |
| 19.1 | Arrangements designed to ensure that records of all services provided and transactions undertaken by CIF are kept, which shall be sufficient to enable the Commission to monitor CIF compliance with the requirements under CIF regulation and in particular its compliance with all its obligations with respect to clients or potential clients | L18(2)(g) |  |
| **PART VIII** | **CLIENT IDENTIFICATION, RECORD KEEPING AND INTERNAL REPORTING PROCEDURES** |  |  |
|  | (check the relevant Directive) |  |  |

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| **PART IX** | **SAFEGUARDING OF CLIENTS ASSETS** | **L18(2)(i) & Ν18(2)(j)** |  |
|  | **Safeguarding of clients financial instruments and funds** |  |  |
| 21.1 | Arrangements designed to comply with the following requirements: |  |  |
| 21.1.1 | Keep such records and accounts as are necessary to enable CIF at any time and without delay to distinguish assets held for one client from assets held for any other client, and from its own assets | DI18(1)(a) |  |
| 21.1.2 | Maintenance of records and accounts in a way that ensures their accuracy, and in particular their correspondence to the financial instruments and funds held for clients | DI18(1)(b) |  |
| 21.1.3 | Conduct, on a regular basis, reconciliations between its internal accounts and records and those of any third parties by whom those assets are held | DI18(1)(c) |  |
| 21.1.4 | Take the necessary steps to ensure that any client financial instruments deposited with a third party, in accordance with paragraph 22, have been identifiable separated from the financial instruments belonging to the CIF and from financial instruments belonging to that third party, by means of differently titled accounts on the books of the third party or other equivalent measures that achieve the same level of protection | DI18(1)(d) |  |
| 21.1.5 | Take the necessary steps to ensure that client funds deposited, in accordance with paragraph 23 above, in a central bank, a credit institution or a bank authorised in a third country or a qualifying money market fund are held in an account or accounts identified separately from any accounts used to hold funds belonging to the CIF | DI18(1)(e) |  |
| 21.1.6 | Introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client assets, or of rights in connection with those assets, as a result of misuse of the assets, fraud, poor administration, inadequate record-keeping or negligence | DI18(1)(f) |  |
| 21.2 | Note: If for reasons of the applicable law, including in particular the law relating to property or insolvency, the arrangements made by the CIF in compliance with paragraph 21.1 to safeguard clients’ rights are not sufficient to satisfy the requirements of section 18(2) (i) and (j) of the Law, the Commission may prescribe the measures that the CIF must take in order to comply with those obligations | DI18(2) |  |
| 21.3 | Note: If the applicable law of the jurisdiction in which the client funds or financial instruments are held prevents the CIF from complying with paragraphs 21.1.4 or 21.1.5, the Commission may prescribe requirements which have an equivalent effect in terms of safeguarding clients’ rights | DI18(3) |  |
|  | **Depositing clients financial instruments** |  |  |
| 22.1 | The CIF deposits financial instruments held on behalf of its clients into an account or accounts opened with a third party provided that the CIF exercises all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and safekeeping of those financial instruments  In particular, the CIF takes into account the expertise and market reputation of the third party as well as any legal requirements or market practices related to the holding of those financial instruments that could adversely affect clients’ rights | DI19(1) |  |
| 22.2 | If the safekeeping of financial instruments for the account of another person is subject to specific regulation and supervision in a jurisdiction where the CIF proposes to deposit client financial instruments with a third party, the CIF does not deposit those financial instruments in that jurisdiction with a third party which is not subject to such regulation and supervision | DI19(2) |  |
| 22.3 | A CIF does not deposit financial instruments held on behalf of clients with a third party in a third country that does not regulate the holding and safekeeping of financial instruments for the account of another person unless one of the following conditions is met: | DI19(3) |  |
| 22.3.1 | The nature of the financial instruments or of the investment services connected with those instruments requires them to be deposited with a third party in that third country | DI19(3)(a) |  |
| 22.3.2 | Where the financial instruments are held on behalf of a professional client, that client requests the CIF in writing to deposit them with a third party in that third country | DI19(3)(b) |  |
|  | **Depositing client funds** |  |  |
| 23.1 | The CIF on receiving any client funds, promptly places those funds into one or more accounts opened with any of the following corporations: | DI20(1) |  |
| 23.1.1 | Central bank | DI20(1)(a) |  |
| 23.1.2 | Credit institution authorised under the Directive 2000/12/EC | DI20(1)(b) |  |
| 23.1.3 | Bank authorised in a third country | DI20(1)(c) |  |
| 23.1.4 | Qualifying money market fund | DI20(1)(d) |  |
| 23.2 | The CIF that does not deposit client funds with a central bank, it is required to exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution, bank or money market fund where the funds are placed and the arrangements for the holding of those funds  The CIF takes into account the expertise and market reputation of such institutions or money market funds with a view to ensuring the protection of clients’ rights, as well as any legal or regulatory requirements or market practices related to the holding of client funds that could adversely affect clients’ rights | DI20(2) |  |
| 23.3 | If the CIF deposits funds it holds on behalf of a client with a qualifying money market fund, the units in that money market fund should be held in accordance with the requirements for holding financial instruments belonging to clients | DI20(3) |  |
| 23.4 | The clients of the CIF have the right to oppose the placement of their funds in a qualifying money market fund | DI20(4) |  |
|  | **Use of client financial instruments** |  |  |
| 24.1 | The CIF is not allowed to enter into arrangements for securities financing transactions in respect of financial instruments held by it on behalf of a client, or otherwise use such financial instruments for its own account or the account of another client of the CIF, unless the following conditions are met: | DI21(1) |  |
| 24.1.1 | The client must have given his prior express consent to the use of the instruments on specified terms, as evidenced, in the case of a retail client, by his signature or equivalent alternative mechanism | DI21(1)(a) |  |
| 24.1.2 | The use of that client's financial instruments must be restricted to the specified terms to which the client consents | DI21(1)(b) |  |
| 24.2 | The CIF is not allowed to enter into arrangements for securities financing transactions in respect of financial instruments which are held on behalf of a client in an omnibus account maintained by a third party, or otherwise use financial instruments held in such an account for its own account or for the account of another client unless, in addition to the conditions set out in paragraph 24.1, at least one of the following conditions is met: | DI21(2) |  |
| 24.2.1 | Each client whose financial instruments are held together in an omnibus account must have given prior express consent in accordance with paragraph 24.1.1 | DI21(2)(a) |  |
| 24.2.2 | The CIF must have in place systems and controls which ensure that only financial instruments belonging to clients who have given prior express consent in accordance with paragraph 24.1.1 are so used | DI21(2)(b) |  |
| 24.3 | The records of the CIF must include details of the client on whose instructions the use of the financial instruments has been effected, as well as the number of financial instruments used belonging to each client who has given his consent in accordance with paragraph 24.1, so as to enable the correct allocation of any loss | DI21(3) |  |

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| **PART Χ** | **INTERNAL OPERATION MANUAL** | **L18(2)(a)** |  |
|  | **Internal operation manual** |  |  |
| 25.1 | Notification procedures of the CIF’s internal operation manual to all of its personnel and its provisions are followed literally by all | DI14 |  |

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| **PART XI** | **BEST EXECUTION POLICY** | L38 |  |
|  | Best execution policy |  |  |
| 26.1 | The CIF must establish and implement an order execution policy to allow the CIF to obtain, for its client orders, the best possible result for its clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. | **L38(1)**  **L38(2)** |  |
| 26.2 | The order execution policy shall include, in respect of each class of instruments, details on the different venues where the CIF executes its client orders and the factors affecting the choice of execution venue and it shall at least include those venues that enable the CIF to obtain on a consistent basis the best possible result for the execution of client orders. | **L38(3)** |  |
| 26.3 | The CIF must provide appropriate information to its clients on its order execution policy and obtain the prior consent of its clients to the said execution policy. | L38(4) |  |
| 26.4 | Where the order execution policy provides for the possibility that client orders may be executed outside a regulated market or an MTF, a CIF must, inform its clients or potential clients about this possibility and obtain their prior express consent before proceeding to execute their orders outside a regulated market or an MTF. A CIF may obtain this consent either in the form of a general agreement or in respect of individual transactions. | L38(4) |  |

1. Law 144(I)/2007 - Investment Services and Activities and Regulated Markets Law of 2007. [↑](#footnote-ref-1)
2. Directives DI144-2007-01 & DI144-2007-01(A) for the authorisation and operating conditions of the CIFs. [↑](#footnote-ref-2)