Before the Arbiter for Financial Services

Case No. 073/2019

PG

('the Complainant' or 'the Member')

vs

Momentum Pensions Malta Limited

(C52627) ('MPM' or 'the Service Provider'

or 'the Retirement Scheme Administrator'

or 'the Trustee')

Sitting of the 6 April 2021

The Arbiter,

PRELIMINARY

Having seen the **Complaint** made against Momentum Pensions Malta Limited ('MPM' or 'the Service Provider') relating to the Momentum Malta Retirement Trust ('the Retirement Scheme' or 'Scheme'), this being a personal retirement scheme licensed by the Malta Financial Services Authority ('MFSA'). The Retirement Scheme is established in the form of a trust and administered by MPM as its Trustee and Retirement Scheme Administrator.

The Case in question

The Complainant stated that his complaint relates to MPM's failure to act in his best interest as a member of the Retirement Scheme.

The Complainant explained that in 2008 he moved to Portugal with his partner who suffers from a chronic life-limiting lung condition where it was their hope to live in a pollution-free environment so that they could spend some quality

time together and extend his partner's life expectancy through the cleaner air offered. He explained that they had limited savings, but the Complainant had a small pension that he had not considered until December 2013 when they needed funds for property maintenance. The Complainant explained that they decided to transfer their pension to a QROPS when he was 59 years old having lived outside of the UK for 5 years.

The Complainant noted that at the time he was introduced to Continental Wealth Management, which is now no longer trading, this being a firm of financial advisors based in Spain. The Complainant explained that CWM came to Portugal to arrange the transfer in January 2014, reassured him that his funds would be invested through Old Mutual International and that the retirement fund trustees would be MPM who are regulated in Malta. The Complainant noted that his research indicated that his funds should thus be secure.[1]

It was further explained that it was agreed that he could release cash funds of 15,000 Euro and that the remainder would be invested on a low-to-medium risk basis and should provide him with 120 Euro per week when he wished to drawdown at the age of 64 in 2018. The Complainant noted that with their dwindling savings and 120 Euro per week they would have been able to live a reasonable existence; and that a further boost at age 66, when his state pension would commence, would have made his life comfortable and he would have been able to care for his partner without undue financial worries.

The Complainant noted that the transfer to the QROPS scheme was finalised in March 2014, and he received his first statement in November 2014. He further noted that the statements are sent out by the Service Provider. The Complainant, however, claimed that the next statement was not sent to him until 2016. The Complainant stated that on receipt of this statement, he was concerned by the figures as it appeared that the value of the Scheme had dropped drastically.

He explained that he contacted the financial advisors (CWM) who informed him that, in fact, the value had increased, and the low figure just indicated the value if sold early, before maturity.

[1] *A fol.* 6

The Complainant further noted that on contact with MPM, he was informed to contact the financial advisor. The Complainant submitted that, in his view, MPM were aware at the time that there could be some discrepancy with how the pension fund was being managed.

The Complainant further explained that on 26 October 2016, he received an email from CWM who, after a meeting with MPM, were advising selling a Leonteq Capital Protected Product. It was noted that MPM as trustees were investigating other Leonteq products.

The Complainant further noted that attached to CWM's email were a number of documents including a *'dealing instruction form'*, this being the first one that he could remember seeing or being requested to view or sign. The Complainant submitted that it later transpired that he had signed a blank dealing instruction on the day of the initial signing up to the pension scheme. It was further submitted that viewing the transaction history statement (a copy of which was attached to his complaint), it was clear to him that numerous transactions had taken place that he had not signed for and therefore he had not agreed to.

The Complainant submitted that at no time was he advised by CWM or MPM that he was responsible for, or should be party to, the agreement of any transactions linked to the Scheme or that he should sign every dealing transaction form. The Complainant submitted that if that had been the case, he would have questioned the reason for the sale or purchase of every transaction and questioned the level of risk involved to his money.

It was further noted that in early September 2017, the Complainant was made aware that CWM had ceased trading. The Complainant explained that he subsequently sent a number of emails to MPM to try and establish his situation. The Complainant submitted that an email from MPM dated 27 September 2017 was the first official communication confirming the fact that his Scheme had dwindled from 81,500 Euro to 17,000 Euro.

The Complainant explained that at this point he was informed that his new financial advisors would be Trafalgar International GmbH. He noted that although he could go to an advisor of his choosing, Stewart Davies of MPM had recommended that he stays with Trafalgar.

The Complainant submitted that from this point, communication in writing with both MPM and Trafalgar proved difficult as both Mr Davies of MPM and Mr Bartlett of Trafalgar preferred to communicate by telephone and both advised him that attempts were being made to try to offer some form of redress based on ongoing meetings with investment companies.

The Complainant also noted that a formal complaint to MPM was made on 1 November 2017 with the understanding that he should receive a response within 15 days. It was claimed that he finally received MPM's reply on 26 January 2018. The Complainant attached copies of the said communications to his complaint.

The Complainant explained that it was at this point that it became clear to him that he would need to find work in the UK to support his partner and managed to secure a post started in March 2018. He also explained that he requested the remaining funds from his Scheme to be released in cash with the final sum of 12,800 Euro paid to him in June 2018. It was remarked that he received his final reply from MPM on 3 September 2018.

The Complainant submitted that MPM, as the Retirement Scheme Administrator, failed to act in his best interests by:

1. not providing timely written confirmation of the investments being made in his portfolio. The Complainant submitted that term sheets were not provided either or in fact any notification as to where and when his money was being invested. It was further submitted that as trustees, MPM should have been aware of the situation from the start and should have been monitoring all transactions to ensure that all investments were reasonably suited to his Scheme;

2. not disclosing the extent to which his pension fund was declining, the associated costs or exit fees. The Complainant submitted that if MPM had applied due diligence as fund managers, they would have been aware of the declining funds and would have known the associated costs were excessive and therefore not suitable for a QROPS scheme;

3. that his money was being gambled on structured notes and other products that were deemed unsuitable for a QROPS retirement scheme or for retail investors.

   The Complainant claimed that MPM are fund managers and trustees and therefore were expected to be expert in their field and work in the best interests of their clients to whom they charged a fee for such service;

4. that due diligence was not applied in vetting CWM to ensure their compliance to operate as financial advisors is fully met. The Complainant noted that through his subsequent research he had not been able to identify any person responsible for signing the dealing instructions provided by CWM as being suitably qualified to perform such duties. It was submitted that MPM has however accepted these transactions without question and therefore failed in their duty to ensure that he was not disadvantaged by the actions of others or its own inaction;

5. that MPM failed in their duty to notify him of any actual dates of a cooling off period or the option to cancel the bond documents. It was submitted that at no time did anyone advise him that there was a cooling off period for the underlying investment.

6. that at no time did MPM advise him how much money he was losing. It was also claimed that, furthermore, at no time did MPM advise him how many investments were being bought and sold in his name, nor was he provided with term sheets relating to the high-risk structured notes and neither was he advised of the huge exit fees involved.

The Complainant submitted that, by failing to act in his best interest and in accordance with MFSA requirements, MPM had been complicit in the financial loss he experienced of 68,698 Euro.

The Complainant stated that MPM is responsible to ensure that the said amount of loss is returned to him. He also demanded to be reimbursed for the estimated returns of 9% p.a. that his original investment of 81,514 Euro should have

achieved if the Scheme had been managed prudently and in line with the Pension Rules for Service Providers issued by the MFSA.[2]

In its reply, MPM essentially submitted the following: [3]

1. That MPM is licensed by the Malta Financial Services Authority to act as the Retirement Scheme Administrator ('RSA') and Trustee of the Scheme. That the Scheme is licensed as a Personal Retirement Scheme.

2. That Continental Wealth Management ('CWM') is a company registered in Spain. Before it ceased to trade, CWM acted as advisor and provided financial advice to investors. CWM was authorised to trade in Spain and in France by Trafalgar International GmbH ('Trafalgar'). Global Net Limited ('Global Net'), an unregulated company, is an associate company of Trafalgar and offers administrative services to entities outside the European Union.

3. That MPM is not linked or affiliated in any manner to CWM, Trafalgar or Global Net.

4. That MPM is not licensed to provide investment advice.

Competence and prescription

5. That preliminary, and in terms of Article 21(1)(b) of Chapter 555 of the Laws of Malta:

   'An Arbiter shall have the competence to hear complaints in terms of his functions under article 19(1) in relation to the conduct of a financial service provider which occurred on or after the first of May 2004:

   Provided that a complaint about conduct which occurred before the entry into force of this Act shall be made by not later than two years from the date when this paragraph comes into force'.

[2] *A fol.* 11
[3] *A fol.* 55-58

The Service Provider submitted that this complaint relates to conduct which occurred before the entry into force of Chapter 555. Article 21(1)(b) came into force on the 18 April 2016.

The complaint was filed on the 6 September 2019, therefore, beyond the two-year time period allowed by Article 21(1)(b). MPM submitted that for these reasons, the complaint cannot be entertained.

6. MPM submitted that without prejudice to the above, and also preliminary, if the Arbiter determines that the conduct complained of is conduct which occurred after the entry into force of Chapter 555 of the Laws of Malta, MPM respectfully submitted that more than two years have lapsed since the conduct complained of took place, and, therefore, pursuant to Article 21(1)(c) of Chapter 555 of the Laws of Malta, the complaint cannot be entertained.

Reply to the Complainant's complaints

7. MPM noted that in the first place, the Complainant appointed CWM as his advisor and referred to the copy of its application form in relation to the Scheme (attached as Appendix 1 to its reply)[4] as well as the application form of Skandia Life Ireland Limited (attached as Appendix 2 to its reply).[5]

It was submitted that, in spite of this, MPM is not aware of any attempt by the Complainant to initiate proceedings against CWM or its officials, which advised the Complainant to invest in products which have led to the Complainant's alleged losses. Additionally, MPM cannot reply with respect to any advice the Complainant received from CWM or with respect to any discussions which the Complainant may have had with CWM. MPM noted that it is not answerable for any information/advice or assurance provided by CWM.

MPM further noted that CWM has ceased trading and is no longer operating and that this was the only reason why the Complainant has filed a claim against MPM and not against CWM. MPM submitted that it is CWM and/or Trafalgar who is the proper respondent to this claim.

[4] *A fol.* 56 & 60
[5] *A fol.* 56 & 69

MPM replied that any business introduced by CWM to MPM fell within the MFSA's Pension Rules for Service Providers as they relate to RSAs. MPM further replied that it does not work on a commission basis and that it neither receives commissions nor pays commissions to any third parties. MPM explained that it charges a fixed fee for the services it provides - this fee does not change, regardless of the underlying investment (which the Complainant was advised to invest in by CWM). It was noted that MPM accordingly did not stand to make any gain or benefit as a result of the Complainant investing in any particular underlying investments.

MPM submitted that the first page of the Complainant's complaint relates to his dealings with CWM with respect to the transfer of the pension, and MPM cannot therefore comment since it would not have been involved in any discussions held between the Complainant and CWM. MPM stated that what it will refer to is the information provided in MPM's application form signed by the Complainant which indicates a risk profile of 'Medium'.

8. MPM noted that the Complainant states that he received his first statement in November 2014 from MPM and then only received the next statement in 2016. MPM explained that annual statements with respect to a particular year are always sent out in the following year. MPM noted that the 2014 statement was sent in November 2014 because 2014 was the inception of membership.

9. MPM noted that the Complainant states in his complaint that *'it later transpired'* that <u>he signed a blank dealing instruction</u>. MPM replied that this did not transpire later for the Complainant knew or should have known at the time of signing the dealing instruction that he signed it in blank.

   MPM submitted that **<u>this was a crucial point as the Complainant has admitted that he signed a dealing instruction in blank</u>**.[6]

   MPM questioned what the Complainant's complaint against MPM was and submitted that the investments were a direct result of his actions. MPM noted that the Complainant states that there were transactions that he did not sign for or agree – MPM stated that this was not correct. MPM

[6] Emphasis added by MPM

submitted that it was the Complainant who signed the dealing instruction in blank and that MPM's obligation was to check that the signature matched that of the member.

MPM noted that the Complainant states that he was not advised that he should sign every dealing instruction form. It was submitted that however this misses the point entirely. MPM further submitted that the Complainant should have known not to sign anything in blank and must now bear the responsibility of his own negligence.[7]

10. MPM remarked that with respect to the allegation that the Complainant only received the first official communication that his *'scheme had dwindled'* in 2017, MPM replied that this was untrue. MPM submitted that it sent annual member statements to the Complainant as per Appendix 5 to its reply.

11. MPM noted that the Complainant also tries to imply that MPM did not want to communicate with him by email, but only over the phone. MPM submitted that this was false and that there is email correspondence with the Complainant (which he himself attached to his complaint). MPM further submitted that calls may have been held with the Complainant, but this was an attempt on MPM's part to provide the Complainant with a more direct and personal service.

12. MPM noted that the Complainant states that the following are his complaints against MPM and that MPM failed to act in his best interests by:

    i. allegedly not providing timely written confirmation of the investments in his portfolio; not providing term sheets or any notification as to where and when his money was being invested.

       MPM replied that had the Complainant not signed a blank dealing instruction, his signature would have been required before each and every investment and he would have therefore known what investments were being carried out. MPM submitted that this is a direct result of his own negligence. MPM further submitted that its

[7] *Ibid.*

obligation was to send annual member statements, which obligation MPM claimed to have fulfilled.

ii. allegedly not disclosing the extent to which his fund was declining, the associated costs or exit fees. MPM submitted that once again it reiterates that its obligation was to send annual member statements, which obligation MPM claimed that it had fulfilled. With respect to the costs and fees, MPM replied that the Complainant was informed of all fees as per Appendix 5 to its reply.[8]

iii. that his money was allegedly being gambled on structured notes and other products unsuitable for a QROPS retirement scheme. MPM replied that it was the Complainant himself who agreed to invest in the products. MPM also replied that, furthermore, it has at all times fulfilled all its obligations with respect to the Complainant and observed all guidelines, including investment guidelines, as will be proved. Additionally, MPM replied that it is not a fund manager.

iv. that due diligence was not applied in vetting CWM to ensure their compliance to operate as financial advisors. MPM replied that it was the Complainant himself who chose CWM as his advisors. It was also noted that furthermore, through the evidence submitted MPM will prove that it did no breach any of its obligations (regulatory or otherwise).

v. allegedly MPM failed to notify him of a cooling off period. MPM submitted that this is false as the Complainant was advised of the cooling off period. Reference was made to Appendix 4 attached to its reply.[9]

It was noted that, additionally, the Complainant alleges that MPM did not advise him how much money he was losing. MPM reiterated once again that annual member statements were sent to the Complainant as per Appendix 5.[10] It was also noted that, furthermore, the Complainant alleges that MPM did not advise him how many

[8] *A fol*. 57 & 101
[9] *A fol.* 57
[10] *A fol.* 57 & 101

investments were being bought and sold. MPM referred, in this respect, to the position already set out above with respect to the Complainant having signed a dealing instruction in blank.

Momentum does not provide investment advice

13. MPM replied that it has, at all times, fulfilled all its obligations with respect to the Complainant and observed all guidelines, including investment guidelines.

14. MPM submitted that it is not licensed to and does not provide investment advice and, furthermore, did not provide investment advice to the Complainant.

15. MPM noted that this is clear from the application forms (attached to Appendix 1 and 2 to its reply) which specifically request the details of the Complainant's professional advisor. It was pointed out that the Complainant also declared on the application form that he acknowledged that the services provided by MPM did not extend to financial, legal, tax or investment advice and referred to declaration 8 on page 6 of the application form.

16. MPM submitted that to further reinforce the point that MPM does not provide investment advice, an entire section of the terms and conditions of business (attached to the application form), is dedicated solely to this point (as per page 7 of the application form).

Conclusion

17. MPM replied that it is not responsible for the payment of any amount claimed by the Complainant and that it has, at all times, fulfilled all its obligations with respect to the Complainant.

    MPM noted that it is not clear how the Complainant has calculated the figure claimed by him. The Service Provider submitted that the Complainant must clarify whether this amount takes into account withdrawals effected by him, the payment of fees and charges as well as the current value of his investments.

18. MPM submitted that it has not committed any fraud, nor has it acted negligently. MPM stated that it has not breached any of its obligations in any way.

19. MPM pointed out that the Complainant must show that it was MPM's actions or omissions which caused the loss being alleged. MPM replied that in the absence of the Complainant proving this causal link, MPM cannot be found responsible for the Complainant's claims.

Having heard the parties and seen all the documents and submissions made including the affidavits, the notes of submissions, the additional submissions made and respective attachments,

Further Considers:

Preliminary Plea regarding the Competence of the Arbiter

Preliminary Plea regarding the Competence of the Arbiter

The Service Provider raised the preliminary plea that the Arbiter has no competence to consider this case based on Article 21(1)(b) and Article 21(1)(c) of Chapter 555 of the Laws of Malta.

Plea relating to Article 21(1)(b) of Chapter 555 of the Laws of Malta

Article 21(1)(b) states that:

'An Arbiter shall have the competence to hear complaints in terms of his functions under article 19(1) in relation to the conduct of a financial service provider which occurred on or after the first of May 2004:

Provided that a complaint about conduct which occurred before the entry into force of this Act shall be made by not later than two years from the date when this paragraph comes into force.'

Firstly, the Arbiter notes that it took three months for the Service Provider to send the Complainant a reply to his formal complaint.[11] The Arbiter does not see a valid reason why the Service Provider took so long to send a reply and related

[11] The Complainant's formal complaint dated 1 November 2017 was answered by the Service Provider on 26 January 2018.

documents, even if it had to deal with various other complaints around the same time.

The Arbiter deems it as very unprofessional for a service provider to make all in its powers to hinder a complaint against it, procrastinate and then raise the plea of lack of competence on the pretext that the action is '*time-barred'*. It is a long accepted legal principle that no one can rest on his own bad faith.

As to Article 21(1)(b), it is noted that the said article stipulates that a complaint related to the '*conduct*' of the financial service provider which occurred before the entry into force of this Act shall be made not later than two years from the date when this paragraph comes into force. This paragraph came into force on the 18 April 2016.

The law does not refer to the date when a transaction takes place but refers to the date when the alleged misconduct took place.

Consequently, the Arbiter has to determine whether the conduct complained of took place before the 18 April 2016 or after, in accordance with the facts and circumstances of the case.

In the case of a financial investment, the conduct of the service provider cannot be determined from the date when the transaction took place and, it is for this reason that the legislator departed from that date and laid the emphasis on the date when the conduct took place.

In this case, the conduct complained of involves the conduct of the Service Provider **as trustee and retirement scheme administrator of the Scheme**, which role MPM occupied since the Complainant became member of the Scheme and **continued to occupy beyond the coming into force of Chapter 555 of the Laws of Malta.**

It is considered that the Service Provider's arguments with respect to Article 21(1)(b) have certain validity only with respect to the alleged failures raised by the Complainant on the right of withdrawal, that is the cooling off period. This is in view that the right of withdrawal is a distinct right which applied and existed at the time of purchase of the policy in March 2014.[12]

[12] *A fol.* 87

The alleged misconduct of the Service Provider in this regard, of not providing the Complainant with the cooling off period at the time of purchase of the policy in 2014, could have thus only been raised with the Arbiter by 18 April 2018. The complaint filed with the Office of the Arbiter for Financial Services ('OAFS') is dated 15 August 2019. Accordingly, for the reasons explained, the Arbiter is rejecting and not considering the part of the complaint relating to the alleged failure of the Service Provider to provide the Complainant with the indicated cooling off period.

In addition to the complaint made with respect to the right of withdrawal, the Complainant however raised other key aspects in his Complaint. Even if for argument's sake only, the Arbiter had to limit himself to the question of the investment portfolio, (which is not the case because the Complainant raised other issues and the Service Provider had other obligations apart from the oversight of the portfolio as explained later in this decision), the Service Provider did not prove in this particular case that the products invested into no longer formed part of the portfolio **after** the coming into force of Chapter 555 of the Laws of Malta. The onus of proof for such evidence rests with the Service Provider.[13]

The Arbiter also makes reference to the comments made further below relating to the maturity of such products.

It is also noted that the complaint in question involves the conduct of the Service Provider during the period in which CWM was permitted by MPM to act as the advisor of the Complainant in relation to the Scheme.

The Service Provider itself declares that it no longer accepted business from CWM **as from September 2017**[14] and that:

'Momentum Pensions decided to suspend activities with CWM on Sunday 10th September 2017 on the basis that we were unsatisfied with communications

[13] Furthermore, the Arbiter notes that there is actually clear evidence from the *'Historical Cash Account Transactions'* statement that the structured notes - being the products predominantly constituting his portfolio of investments as will be considered later in this decision - still formed part of the Complainant's portfolio after 18 April 2016 - *A fol.* 34

[14] Para. 44, Section E of the affidavit of Stewart Davies, Director of MPM – *A fol.* 128

being issued to Members, and also, investments selected by them on behalf of members have performed poorly'.[15]

CWM was therefore still accepted by the Service Provider and acting as the investment advisor to the Complainant after the coming into force of Chapter 555 of the Laws of Malta. It has thus emerged that CWM was only replaced in September 2017 when MPM no longer accepted business from CWM. The responsibility of MPM in this regard is explained later on in this decision.

The Arbiter considers that the actions related to the Retirement Scheme complained about cannot accordingly be considered to have all occurred before 18 April 2016 and therefore the plea as based on Article 21(1)(b) cannot be upheld.

Article 21(1)(c)

The Service Provider alternatively also raises the plea that Article 21(1)(c) of Chapter 555 should apply.

Article 21(1)(c) stipulates:

'An Arbiter shall also have the competence to hear complaints in terms of his functions under article 19(1) in relation to the conduct of a financial service provider occurring after the coming into force of this Act, if a complaint is registered in writing with the financial services provider not later than two years from the day on which the complainant first had knowledge of the matters complained of.'

In that case, the Complainant had two years to complain to the Service Provider '*from the day on which the complainant first had knowledge of the matters complained of'*.

In its Reply before the Arbiter for Financial Services, the Service Provider only submitted that more than two years have lapsed since the conduct complained of took place and did not elaborate any further as to why the Complaint cannot be entertained in terms of the said article.

[15] Email dated 27 September 2017 from Stewart Davies to PG - *A fol.* 8

In its additional submissions, MPM noted that without prejudice to its plea relating to Article 21(1)(b), '*the complaint is also prescribed on the basis of [article 21(1)(c)]*', submitting that:

'*The complainant received annual member statements from the start of his investment (Appendix 5 attached to the reply filed by Momentum), and yet he only filed a complaint with Momentum in November 2017 (as emerges from the documentation filed with the original complaint)*'.[16]

First of all, the Arbiter wants to underline the fact that the timeframes established under Article 21(1)(b)(c)(d) of Chapter 555 of the Laws of Malta are not 'prescriptive' periods but periods of decadence and, therefore, different rules apply. However, it is not necessary to enter into these legal distinctions in this particular case.

Even considering the only point raised by the Service Provider (which just covers one, of the number of aspects complained about by the Complainant), it is noted that the fact that the Complainant was sent an Annual Member Statement, as stated by the Service Provider in its notes of submissions, could not be considered as enabling the Complainant to have knowledge about the matters complained of. This taking into consideration a number of factors including that the said Annual Member Statement was a highly generic report which only listed the underlying life assurance policy. The Annual Member Statement issued to the Complainant by MPM included no details of the specific underlying investments held within the policy. Hence, the Complainant was not in a position to know, from the Annual Member Statement he received, what investment transactions were actually being carried out within his portfolio of investments.

It is also noted that the Annual Member Statement sent to the Complainant by the Service Provider had even a disclaimer highlighting that certain underlying investments may show a value reflecting an early encashment value or potentially a zero value prior to maturity and that such value did not reflect the true performance of the underlying assets.

The disclaimer read as follows:

[16] *A fol.* 194

'*Investment values are provided to Momentum Pensions Malta Limited by Investment Platforms, who are responsible for the accuracy of this information. Every effort has been made to ensure that this statement is correct but please accept this statement on this understanding.*

Certain underlying assets with the Investment, may show a value that reflects an early encashment value or potentially a zero value prior to the maturity date. This will not reflect the true current performance of such underlying assets.'

Such a disclaimer did not reveal much to the Complainant about the actual state of the investments and the whole scenario could not have reasonably enabled the Complainant to have knowledge about the matters being complained of.

It is noted from the *'Historical Cash Account Transactions'* statement dated 27/09/2017, that five of the twelve structured notes invested into were sold in May 2017 with another two structured notes still not having matured or redeemed by the date of this statement.

The Arbiter has also discovered from numerous cases he has decided on the same subject matter that the Service Provider sent communication to all members of the Scheme with respect to the position with CWM.[17] In this regard, in September 2017, members were notified by MPM about the suspension of the terms of business that MPM had with CWM. Later, in October 2017, MPM also notified the members of the Scheme about the full withdrawal of such terms of business with CWM.

The Complainant in this case made a formal complaint with the Service Provider through a formal complaint dated 1 November 2017 and, thus, within the two-year period established by Art. 21(1)(c) of Chapter 555.

Therefore, the Service Provider did not prove that the Complainant in the said case raised the complaint '*later than two years from the day on which the complainant first had knowledge of the matters complained of*'.

It is also noted that in this case not even two years had passed from the coming into force of Chapter 555 of the Laws of Malta and the date when the formal complaint was made by the Complainant with the Service Provider.

[17] Example, Case Number 127/2018 decided on 28 July 2020

For the above-stated reasons, this plea is also being rejected and the Arbiter declares that he has the competence to deal with the Complaint.

The Merits of the Case

The Arbiter will decide the complaint by reference to what, in his opinion, is fair, equitable and reasonable in the particular circumstances and substantive merits of the case.[18]

The Complainant

The Complainant, born in 1954, is of British nationality and resided in Portugal at the time of application for membership as per the details contained in the *Application for Membership of the Momentum Malta Retirement Trust* ('the Application Form for Membership').[19]

The Complainant's occupation was indicated as retired in the said Application Form.

It was not indicated, nor has it emerged, during the case that the Complainant was a professional investor and accordingly the Complainant can be regarded as a retail client.

The Complainant was accepted by MPM as member of the Retirement Scheme on 19 February 2014.[20]

The Service Provider

The Retirement Scheme was established by Momentum Pensions Malta Limited ('MPM'). MPM is licensed by the MFSA as a Retirement Scheme Administrator[21] and acts as the Retirement Scheme Administrator and Trustee of the Scheme.[22]

The Legal Framework

The Retirement Scheme and MPM are subject to specific financial services legislation and regulations issued in Malta, including conditions or pension rules

[18] Cap. 555, Art 19(3)(b)
[19] *A fol.* 60
[20] *A fol.* 104
[21] *https://www.mfsa.mt/financial-services-register/result/?id=3453*
[22] *A fol.* 151 - Role of the Trustee, pg. 4 of MPM's Scheme Particulars (attached to Stewart Davies's affidavit).

issued by the MFSA in terms of the regulatory framework applicable for personal retirement schemes.

The Special Funds (Regulation) Act, 2002 ('SFA') was the first legislative framework which applied to the Scheme and the Service Provider. The SFA was repealed and replaced by the Retirement Pensions Act (Chapter 514 of the Laws of Malta) ('RPA'). The RPA was published in August 2011 and came into force on the 1 January 2015.[23]

There were transitional provisions in respect of those persons who, upon the coming into force of the RPA, were registered under the SFA. The Retirement Pensions (Transitional Provisions) Regulations, 2015 provided that retirement schemes or any person registered under the SFA had one year from the coming into force of the RPA to apply for authorisation under the RPA.

In terms of Regulation 3 of the said Transitional Provisions Regulations, such schemes or persons continued to be governed by the provisions of the SFA until such time that these were granted authorisation by MFSA under the RPA.

As confirmed by the Service Provider, registration under the RPA was granted to the Retirement Scheme and the Service Provider on 1 January 2016 and hence the framework under the RPA became applicable as from such date.[24]

Despite not being much mentioned by MPM in its submissions, the Trusts and Trustees Act (Chapter 331 of the Laws of Malta), ('TTA') is also much relevant and applicable to the Service Provider, as per Article 1(2) and Article 43(6)(c) of the TTA, in light of MPM's role as the Retirement Scheme Administrator and Trustee of the Retirement Scheme.

Indeed, Article 1(2) of the TTA provides that:

'*The provisions of this Act, except as otherwise provided in this Act, shall apply to all trustees, whether such trustees are authorised, or are not required to obtain authorisation in terms of article 43 and article 43A*',

[23] *Retirement Pensions Act, Cap. 514/Circular letter issued by the MFSA - https://www.mfsa.com.mt/firms/regulation/pensions/pension-rules-applicable-as-from-1-january-2015/*

[24] As per pg. 1 of the Affidavit of Stewart Davies and the Cover Page of MPM's Registration Certificate issued by MFSA dated 1 January 2016 attached to his affidavit.

with Article 43(6)(c) in turn providing that

'*A person licensed in terms of the Retirement Pensions Act to act as a Retirement Scheme Administrator acting as a trustee to retirement schemes shall not require further authorisation in terms of this Act provided that such trustee services are limited to retirement schemes …'.*

Particularities of the Case

The Retirement Scheme in respect of which the Complaint is being made

The Momentum Malta Retirement Trust ('the Retirement Scheme' or 'the Scheme') is a trust domiciled in Malta. It was granted a registration by the MFSA[25] as a Retirement Scheme under the Special Funds (Regulation) Act in April 2011[26] and under the Retirement Pensions Act in January 2016.[27]

As detailed in the Scheme Particulars dated May 2018 presented by MPM during the proceedings of this case, the Scheme

'*was established as a perpetual trust by trust deed under the terms of the Trusts and Trustees Act (Cap.331) on the 23 March 2011*'[28] and is '*an approved Personal Retirement Scheme under the Retirement Pensions Act 2011*'.[29]

The Scheme Particulars specify that:

'*The purpose of the Scheme is to provide retirement benefits in the form of a pension income or other benefits that are payable to persons who are resident both within and outside Malta. These benefits are payable after or upon retirement, permanent invalidity or death*'.[30]

The case in question involves a member-directed personal retirement scheme where the Member was allowed to appoint an investment advisor to advise him on the choice of investments.

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[25] *https://www.mfsa.com.mt/financial-services-register/result/?id=3454*
[26] Registration Certificate dated 28 April 2011 issued by MFSA to the Scheme (attached to Stewart Davies's affidavit).
[27] Registration Certificate dated 1 January 2016 issued by MFSA to the Scheme (attached to Stewart Davies's affidavit).
[28] Important Information section, Pg. 2 of MPM's Scheme Particulars (attached to Stewart Davies's affidavit).
[29] Regulatory Status, Pg. 4 of MPM's Scheme Particulars (attached to Stewart Davies's affidavit).
[30] *Ibid.*

The assets held in the Complainant's account with the Retirement Scheme were used to acquire a whole of life insurance policy for the Complainant.

The life assurance policy acquired for the Complainant was called the European Executive Investment Bond issued by Skandia International[31]/Old Mutual International ('OMI').[32]

The premium in the said policy was in turn invested in a portfolio of investment instruments under the direction of the Investment Advisor and as accepted by MPM.

The underlying investments comprised substantial investments in structured notes as indicated in the table of investments forming part of the '*Investor Profile*' presented by the Service Provider during the proceedings of the case[33] and as also emerging from the *'Historical Cash Account Transactions'* statement dated 27/09/2017 presented by the Complainant.[34]

The '*Investor Profile*' presented by the Service Provider for the Complainant also included a table with a loss of EUR57,044 as at 20/06/2018 following surrender of the Scheme.[35]

Investment Advisor

Continental Wealth Management ('CWM') was the investment advisor appointed by the Complainant.[36] The role of CWM was to advise the Complainant regarding the assets held within his Retirement Scheme.

It is noted that in the notices issued to members of the Scheme in September and October 2017 as referred to above in the *'Preliminary Plea'* section, MPM described CWM as '*an authorised representative/agent of Trafalgar*

[31] Skandia International eventually rebranded to Old Mutual International - *https://www.oldmutualwealth.co.uk/Media-Centre/2014-press-releases/december-20141/skandia-international-rebrands-to-old-mutual-international/*
[32] *A fol.* 70
[33] The 'Investor Profile' is attached to the Additional Submissions document presented by the Service Provider in respect of the Complainant. *A fol.* 197
[34] *A fol.* 34-43
[35] *A fol.* 197
[36] As per pg. 1/2 of MPM's reply to the OAFS in respect of the Complainant.

International GMBH', where CWM's was Trafalgar's '*authorised representative in Spain and France*'.

In its reply to this complaint, MPM explained *inter alia* that CWM:

'*is a company registered in Spain. Before it ceased to trade, CWM acted as advisor and provided financial advice to investors. CWM was authorised to trade in Spain and in France by Trafalgar International GmbH*'.[37]

In its submissions, it was further explained by MPM that:

'*CWM was appointed agent of Trafalgar International GmbH ('Trafalgar') and was operating under Trafalgar International GmbH licenses*',[38]

and that Trafalgar

'*is authorised and regulated in Germany by the Deutsche Industrie Handelskammer (IHK) Insurance Mediation licence 34D Broker licence number: D-FE9C-BELBQ-24 and Financial Asset Mediator licence 34F: D-F-125-KXGB-53'*.[39]

Underlying Investments

As indicated above, the investments undertaken within the life assurance policy of the Complainant were summarised in the table of investment transactions included as part of the '*Investor Profile*' provided by the Service Provider.[40]

The transactions undertaken within his portfolio also emerge from the '*Historical Cash Account Transactions'* statement dated 27/09/17 issued by OMI presented by the Complainant.[41]

The investment transactions undertaken within the Complainant's portfolio from commencement of the underlying policy as per the information from the said statement/'Investor Profile' are as follows:

[37] Pg. 1 of MPM's reply to the OAFS.
[38] Para. 39, Section E titled *'CWM and Trafalgar International GmbH'* of the affidavit of Stewart Davies.
[39] *Ibid.*
[40] Attachment to the '*Additional submissions*' made by MPM in respect of the Complainant - *A fol.* 197
[41] *A fol.* 34-43

Table A

ISIN NO.	Investment	Date bought	CCY	Purchase Amt.	Date sold	Maturity / Sale price	Capital Loss/ Profit (excluding dividends)
XS1015498360	RBC Energy Note	17/04/2014	EUR	32,000	12/04/2016	1,030.40	-30,969.60
XS1048446428	Nomura 9% US Technology Inc	29/04/2014	EUR	32,000	29/04/2015	32,000	0.00
XS1057778505	Commerzbank 9% Future Pioneers	13/05/2014	EUR	16,000	23/09/2014	8,572.50 7,000	-427.50
CH0245656522	Leonteq Mul Barrier Pharma Note	23/09/2014	EUR	9,000	23/04/2015	9,000	0.00
CH0256091668	Leonteq November COSI Blue 1	05/12/2014	EUR	1,887	09/10/2015	1,840	-46.60
CH0273397270	EFG Red April 5	08/05/2015	EUR	5,000	08/05/2017	662.89	-4,337.11
DE000CB0FM50	Commerzbank 2Y AC Phoenix Note	08/05/2015	EUR	16,000	11/05/2017	3,890.56	-12,109.44
CH0273397429	EFG Red April 6	08/05/2015	EUR	5,000	08/05/2017	185.53	-4,814.47
CH0273395795	EFG Red April 2 8.12 % Note	15/05/2015	EUR	17,000	15/05/2017	1,034.00	-15,966.00
CH0279920281	EFG 2Y Red May 1-7% Inc Note	29/05/2015	EUR	7,000	29/05/2017	336.63	-6,663.37
MT7000012753	Dominion Global TR Luxury Consumer	20/11/2015	EUR	3,000	2018	2,916.78	-83.22
CH0266688792	Leonteq 5Y Credit Linked Note on Standard Chart	24/12/2015	EUR	2,000	2018	1,756.80	-243.20
XS1388700491	RBC Notes Linked to SPX	18/04/2016	EUR	1,030			

During the tenure of CWM, twelve structured notes were purchased in total between 2014-2016 and one small investment (of EUR3,000) into a collective investment schemes made in 2015.

It is noted that, as indicated in Table B below, even when taking into consideration the dividends received from the respective investments (based on the information available from the *Historical Cash Account Transactions* statement), various structured notes still experienced substantial losses.

Table B

Investment	**Capital Loss/ Profit (excluding dividends)**	**Total Dividends**	**Total Loss/Profit (inclusive of dividends)**	**% of Total Loss/ Profit (incl.of div) on capital invested**
RBC Energy Note	-30,969.60	5,600.00	-25,369.60	-79.28%
Nomura 9% US Technology Inc	0.00	2,880.00	2,880.00	9%
Commerzbank 9% Future Pioneers	-427.50	832.50	405.00	2.53%
Leonteq Mul Barrier Pharma Note	0.00	405.00	405.00	4.50%
Leonteq November COSI Blue 1	-46.60	135.00	88.40	4.69%
EFG Red April 5	-4,337.11	1,000.00	-3,337.11	-66.74%
Commerzbank 2Y AC Phoenix Note	-12,109.44	2,688.00	-9,421.44	-58.88%
EFG Red April 6	-4,814.47	0.00	-4,814.47	-96.29%
EFG Red April 2 8.12 % Note	-15,966.00	2,842.40	-13,123.60	-77.20%
EFG 2Y Red May 1-7% Inc Note	-6,663.37	980.00	-5,683.37	-81.19%
Dominion Global TR Luxury Consumer*	-83.22			
Leonteq 5Y Credit Linked Note on Standard Chart*	-243.20			
RBC Notes Linked to SPX*				

** Info. not available from the Historical Cash Account Transactions statement/the 'Investor Profile' table.*

Further Considerations

Responsibilities of the Service Provider

MPM is subject to the duties, functions and responsibilities applicable as a Retirement Scheme Administrator and Trustee of the Scheme.

Obligations under the SFA, RPA and directives/rules issued thereunder

As indicated in the MFSA's Registration Certificate dated 28 April 2011 issued to MPM under the SFA, MPM was required, in the capacity of Retirement Scheme Administrator, '*to perform all duties as stipulated by articles 17 and 19 of the Special Funds (Regulation) Act, 2002 … in connection with the ordinary or day-to-day operations of a Retirement Scheme registered under the [SFA]*'.

The obligations of MPM as a Retirement Scheme Administrator under the SFA are outlined in the Act itself and the various conditions stipulated in the original Registration Certificate which *inter alia* also referred to various Standard Operational Conditions (such as those set out in Sections B.2, B.5, B.7 of Part B and Part C) of the '*Directives for Occupational Retirement Schemes, Retirement Funds and Related Parties under the Special Funds (Regulation) Act*, *2002'* ('the Directives').

In terms of the said Registration Certificate issued under the SFA, MPM was also required to assume and carry out, on behalf of the Scheme, any functions and obligations applicable to the Scheme under the SFA, the regulations and the Directives issued thereunder.

Following the repeal of the SFA and issue of the Registration Certificate dated 1 January 2016 under the RPA, MPM was subject to the provisions relating to the services of a retirement scheme administrator in connection with the ordinary or day-to-day operations of a Retirement Scheme registered under the RPA. As a Retirement Scheme Administrator, MPM was subject to the conditions outlined in the '*Pension Rules for Service Providers issued under the Retirement Pensions Act*' ('the Pension Rules for Service Providers') and the '*Pension Rules for Personal Retirement Schemes issued under the Retirement Pensions Act*' ('the Pension Rules for Personal Retirement Schemes').

In terms of the said Registration Certificate issued under the RPA, MPM was also required to assume and carry out, on behalf of the Scheme, any functions and obligations applicable to the Scheme under the RPA, the regulations and the Pension Rules issued thereunder.

One key duty of the Retirement Scheme Administrator emerging from the primary legislation itself is the duty to *'act in the best interests of the scheme'* as outlined in Article 19(2) of the SFA and Article 13(1) of the RPA.

From the various general conduct of business rules/ standard licence conditions applicable to MPM in its role as Retirement Scheme Administrator under the SFA/ RPA regime respectively, it is pertinent to note the following general principles:[42]

a) Rule 2.6.2 of Part B.2.6 titled '*General Conduct of Business Rules applicable to the Scheme Administrator*' of the Directives issued under the SFA, which applied to MPM as a Scheme Administrator under the SFA, provided that

b) '*The Scheme Administrator* ***shall act with due skill, care and diligence – in the best interests of the Beneficiaries*** …'.

   The same principle continued to apply under the rules issued under the RPA. Rule 4.1.4, Part B.4.1 titled '*Conduct of Business Rules*' of the Pension Rules for Service Providers dated 1 January 2015 issued in terms of the RPA, and which applied to MPM as a Scheme Administrator under the RPA, provided that '*The Service Provider* ***shall act with due skill, care and diligence*** …'.

c) Rule 2.7.1 of Part B.2.7 titled '*Conduct of Business Rules related to the Scheme's Assets*', of the Directives issued under the SFA, which applied to MPM as a Scheme Administrator under the SFA, provided that:

   '***The Scheme Administrator shall arrange for the Scheme assets to be invested in a prudent manner and in the best interest of Beneficiaries*** …'.

   The same principle continued to apply under the rules issued under the RPA. Standard Condition 3.1.2, of Part B.3 titled '*Conditions relating to the*

[42] Emphasis added by the Arbiter.

investments of the Scheme' of the Pension Rules for Personal Retirement Schemes dated 1 January 2015 issued in terms of the RPA, provided that:

'***The Scheme's assets shall be invested in a prudent manner and in the best interest of Members and Beneficiaries*** *and also in accordance with the investment rules laid out in its Scheme Particulars and otherwise in the Constitutional Document and Scheme Document*';

d) Rule 2.6.4 of Part B.2.6 titled '*General Conduct of Business Rules applicable to the Scheme Administrator*' of the Directives issued under the SFA, which applied to MPM as a Scheme Administrator under the SFA provided that:

'*The Scheme Administrator shall organise and control its affairs in a responsible manner and* ***shall have adequate operational, administrative*** *and financial procedures* ***and controls in respect of its own business and the Scheme*** *to ensure compliance with regulatory conditions and to enable it to be effectively prepared to manage, reduce and mitigate the risks to which it is exposed …'.*

The same principle continued to apply under the rules issued under the RPA. Standard Condition 4.1.7, Part B.4.1 titled '*Conduct of Business Rules*' of the Pension Rules for Service Providers dated 1 January 2015 issued in terms of the RPA, provided that:

'*The Service Provider shall organise and control its affairs in a responsible manner and* ***shall have adequate operational, administrative*** *and financial procedures* ***and controls in respect of its own business and the Scheme*** *or Retirement Fund, as applicable, to ensure compliance with regulatory conditions and to enable it to be effectively prepared to manage, reduce and mitigate the risks to which it is exposed*.'

Standard Condition 1.2.2, Part B.1.2 titled '*Operation of the Scheme*, of the Pension Rules for Personal Retirement Schemes dated 1 January 2015 issued in terms of the RPA, also required that:

'***The Scheme shall organise and control its affairs in a responsible manner and shall have adequate operational, administrative*** *and financial procedures* ***and controls to ensure compliance with all regulatory requirements****'*.

Trustee and Fiduciary obligations

As highlighted in the section titled '*The Legal Framework*' above, the Trusts and Trustees Act ('TTA'), Chapter 331 of the Laws of Malta is also relevant for MPM considering its capacity as Trustee of the Scheme. This is an important aspect on which not much emphasis on, and reference to, has been made by the Service Provider in its submissions.

Article 21 (1) of the TTA which deals with the '*Duties of trustees*', stipulates a crucial aspect, that of the ***bonus paterfamilias***, which applies to MPM.

The said article provides that:

'(1) ***Trustees shall in the execution of their duties and the exercise of their powers and discretions act with the prudence, diligence and attention of a bonus paterfamilias,*** *act in utmost good faith and avoid any conflict of interest'.*

It is also to be noted that Article 21 (2)(a) of the TTA, further specifies that:

'Subject to the provisions of this Act, trustees shall carry out and administer the trust according to its terms; and, subject as aforesaid, the trustees shall ensure that the trust property is vested in them or is under their control and shall, so far as reasonable and subject to the terms of the trust, safeguard the trust property from loss or damage *…'.*

In its role as Trustee, MPM was accordingly duty bound to administer the Scheme and its assets to high standards of diligence and accountability.

The trustee, having acquired the property of the Scheme in ownership under trust, had to deal with such property '*as a fiduciary acting exclusively in the interest of the beneficiaries, with honesty, diligence and impartiality*'.[43]

As has been authoritatively stated:

'*Trustees have many duties relating to the property vested in them. These can be summarized as follows:* ***to act diligently, to act honestly and in good faith and with impartiality towards beneficiaries, to account to the beneficiaries and to provide them with information, to safeguard and keep control of the trust***

[43] Ganado Max (Editor), 'An Introduction to Maltese Financial Services Law') Allied Publications 2009) p.174.

property and to apply the trust property in accordance with the terms of the trust'.[44]

The fiduciary and trustee obligations were also highlighted by MFSA in a recent publication where it was stated that:

*'**In carrying out his functions, a RSA [retirement scheme administrator] of a Personal Retirement Scheme has a fiduciary duty to protect the interests of members and beneficiaries**. It is to be noted that by virtue of Article 1124A of the Civil Code (Chapter 16 of the Laws of Malta), the RSA has certain fiduciary obligations to members or beneficiaries, which arise in virtue of law, contract, quasi-contract or trusts. In particular, **the RSA shall act honestly, carry out his obligations with utmost good faith, as well as exercise the diligence of a bonus paterfamilias in the performance of his obligations**'.*[45]

Although this Consultation Document was published in 2017, MFSA was basically outlining principles established both in the TTA and the Civil Code which had already been in force prior to 2017.

The above are considered to be crucial aspects which should have guided MPM in its actions and which shall accordingly be considered in this decision.

Other relevant aspects

One other important duty relevant to the case in question relates to **the oversight and monitoring function of the Service Provider in respect of the Scheme including with respect to investments**. As acknowledged by the Service Provider whilst MPM's duties did not involve the provision of investment advice, however, MPM did '*… **retain the power to ultimately decide whether to proceed with an investment or otherwise***'.[46]

Once an investment decision is taken by the member and his/her investment advisor and such decision is communicated to the retirement scheme administrator, MPM explained that as part of its duties:

[44] *Op. cit.* p. 178
[45] Consultation Document on Amendments to the Pension Rules issued under the Retirement Pensions Act [MFSA Ref: 09-2017], (6 December 2017) p. 9.
[46] Para. 17, page 5 of the affidavit of Stewart Davies

***'The RSA will then ensure that the proposed trade on the dealing instruction, when considered in the context of the entire portfolio, ensures a suitable level of diversification, is in line with the member's attitude to risk and in line with the investment guidelines (applicable at the time the trade is placed)** …'.*[47]

MPM had accordingly the final say prior to the placement of a dealing instruction, in that, if MPM was satisfied that the level of diversification is suitable and in order, and the member's portfolio as a whole is in line with his attitude to risk and investment guidelines '*the dealing instruction will be placed with the insurance company and the trade will be executed.* ***If the RSA is not so satisfied, then the trade will not be proceeded with***'.[48]

This, in essence, reflected the rationale behind the statement reading:

'*I accept that I or my designated professional advisor may suggest investment preferences to be considered, however,* ***the Retirement Scheme administrator will retain full power and discretion for all decisions relating to the purchase, retention and sale of the investments*** *within my Momentum Pensions Retirement Fund*' which featured in the '*Declarations*' section of the Application Form for Membership signed by the Complainant.

The MFSA regarded the oversight function of the Retirement Scheme Administrator as an important obligation where it emphasised, in recent years, the said role.

The MFSA explained that it:

'… is of the view that as specified in SLC 1.3.1 of Part B.1 (Pension Rules for Retirement Scheme Administrators) of the Pension Rules for Service Providers, the RSA, in carrying out his functions, shall act in the best interests of the Scheme members and beneficiaries. The MFSA expects the RSA to be diligent and to take into account his fiduciary role towards the members and beneficiaries, at all times, irrespective of the form in which the Scheme is established. The RSA is expected to approve transactions and to ensure that these are in line with the

[47] Para. 31, Page 8 of the affidavit of Stewart Davies
[48] Para. 33, Page 9 of the affidavit of Stewart Davies. Para. 17 of Page 5 of the said affidavit also refers.

investment restrictions and the risk profile of the member in relation to his individual member account within the Scheme'.[49]

The MFSA has also highlighted the need for the retirement scheme administrator to query and probe the actions of a regulated investment advisor stating that *'the MFSA also remains of the view that the RSA is to be considered responsible to verify and monitor that investments in the individual member account are diversified, and the RSA is not to merely accept the proposed investments, but it should acquire information and assess such investments'.* [50]

Despite that the above quoted MFSA statements were made in 2018, an oversight function applied during the period relating to the case in question as explained earlier on.

As far back as 2013, MPM's Investment Guidelines indeed also provided that:

'***The Trustee need to ensure that the member's funds are invested in a prudent manner and in the best interests of the beneficiaries. The key principle is to ensure that there is a suitable level of diversification*** *…*',[51]

whilst para. 3.1 of the section titled '*Terms and Conditions'* of the Application Form for Membership into the Scheme also provided *inter alia* that

'… ***in its role as Retirement Scheme Administrator [MPM] will exercise judgement as to the merits or suitability of any transaction*** *…*'.

Other Observations and Conclusions

Allegations in relation to fees

In his complaint to the OAFS, the Complainant claimed that the Service Provider failed to ensure disclosure of the associated costs and exit fees within his

[49] Pg. 7 of the MFSA's Consultation Document dated 16 November 2018 titled '*Consultation on Amendments to the Pension Rules for Personal Retirement Schemes issued under the Retirement Pensions act*' (MFSA Ref. 15/2018) - https://www.mfsa.com.mt/publications/policy-and-guidelines/consultation-documents-archive/.
[50] Pg. 9 of MFSA's Consultation Document dated 16 November 2018 titled *'Consultation on Amendments to the Pension Rules for Personal Retirement Schemes issued under the Retirement Pensions Act' (MFSA Ref. 15/2018).*
[51] Investment Guidelines titled January 2013, attached to the affidavit of Stewart Davies. The same statement is also included in page 9 of the Scheme Particulars of May 2018 (also attached to the same affidavit).

Scheme and also claimed that the costs incurred within the Scheme were excessive.

The Complainant has however not provided any further basis and explanation for such allegation nor any evidence about such claim.

In the circumstances, the Arbiter considers that there is insufficient basis and evidence for him about the allegations made in respect of fees.

On the point of fees, the Arbiter would however like to make a general observation. The Arbiter considers that the trustee and scheme administrator of a retirement scheme, in acting in the best interests of the member as duty bound by law and rules to which it is subject to, is required to be sensitive to, and mindful of, the implications and level of fees applicable within the whole structure of the retirement scheme and not just limit consideration to its own fees.

In its role of a *bonus paterfamilias,* the trustee of a retirement scheme is reasonably expected to ensure that the extent of fees applicable within the whole structure of a retirement scheme is reasonable, justified and adequate overall when considering the purpose of the scheme. Where there are issues or concerns these should reasonably be raised with the prospective member or member as appropriate.

Consideration would in this regard need to be given to a number of aspects including: the extent of fees vis-à-vis the size of the respective pension pot of the member; that the extent of fees are not such as to inhibit or make the attainment of the objective of the Scheme difficult to be actually reached without taking excessive risks; neither that the level of fees motivate investment in risky instruments and/or the construction of risky portfolios.

Key considerations relating to the principal alleged failures

The Arbiter will now consider the principal alleged failures.

As indicated above, the Complainant raised a number of main aspects in his Complaint where, in essence, he alleged that MPM has not acted in his best interests claiming that:

(i) MPM failed to undertake adequate due diligence and vet CWM;

(ii) MPM allowed his money to be gambled in high-risk structured notes which were unsuitable for a retirement scheme and for retail investors despite that it should have been monitoring all transactions;

(iii) MPM failed to adequately inform him about the investment transactions (purchases and sales) being made within his Scheme.

General observations

On a general note, it is clear that MPM did not provide investment advice in relation to the underlying investments of the member-directed scheme. The role of the investment advisor was the duty of other parties, such as CWM.

This would reflect on the extent of responsibility that the financial advisor and the RSA and Trustee had in this case as will be later seen in this decision.

However, despite that the Retirement Scheme Administrator was not the entity which provided the investment advice to invest in the contested financial instruments, **MPM had nevertheless certain obligations to undertake in its role of Trustee and Scheme Administrator. The obligations of the trustee and retirement scheme administrator in relation to a retirement plan are important ones and could have a substantial bearing on the operations and activities of the scheme and affect directly, or indirectly, its performance**.

Consideration thus needs to be made as to whether MPM failed in any relevant obligations and duties and, if so, to what extent any such failures are considered to have had a bearing or otherwise on the financial performance of the Scheme and the resulting losses for the Complainant.

A. The appointment of the Investment Advisor

It is noted that the Complainant chose the appointment of CWM to provide him with investment advice in relation to the selection of the underlying investments and composition of the portfolio within the member-directed Scheme.

However, from its part, MPM allowed and/or accepted CWM to provide investment advice to the Complainant within the Scheme's structure.

The Arbiter has also knowledge that **MPM even had itself an introducer agreement with CWM and makes reference to the cases against MPM decided by him on the 28 July 2020**.

There are a number of aspects which give rise to concerns on the diligence exercised by MPM when it came to the acceptance of, and dealings with, the investment advisor as further detailed below.

Inappropriate and inadequate material issues involving the Investment Advisor

i. *Incomplete and inaccurate material information relating to the advisor in MPM's Application Form for Membership*

It is considered that **MPM accepted and allowed inaccurate and incomplete material information relating to the Advisor to prevail in its own Application Form for Membership**. MPM should have been in a position to identify, raise and not accept the material deficiencies arising in the Application Form.

If inaccurate and incomplete material information arose in the Application Form for Membership in respect of such a key party, it was only appropriate and in the best interests of the Complainant, and reflective of the role as Trustee as a *bonus paterfamilias*, for MPM to raise and flag such matters to the Complainant and not accept such inadequacies in its form. **MPM had ultimately the prerogative whether to accept the application, the selected investment advisor and also decide with whom to enter into terms of business**.

The section titled '*Professional Advisor's Details*' in the Application Form for Membership in respect of the Complainant indicated '*CWM'* as the company's name of the professional advisor.

In the same section of the Application Form, CWM was indicated as having a registered address in Spain and that it was regulated with '*ICCS*' mentioned as being the regulator of the professional advisor.

The Arbiter considers the reference to ICCS as regulator of CWM to be inadequate and misleading.

With respect to the reference to '*ICCS*' such reference was not defined or explained in the Application Form. Neither were such reference ever explained

or referred to during the comprehensive submissions made by the Service Provider during the proceedings of the case. It has not emerged either that ICCS are, or were, a regulatory authority for investment advisors in Spain or in any other jurisdiction. It appears that '*ICCS*' could be an acronym for the '*Cypriot Insurance Companies Control Service*'. The Cypriot Insurance Companies Control Service is involved in the insurance sector in Cyprus.[52] No evidence of any authorisation or any form of approval issued by such to CWM has however been ever mentioned by the Service Provider and even more, neither produced by it during the proceedings of the case.

Indeed, no evidence was actually submitted by MPM of CWM being truly regulated.

The reference to ICCS could not have reasonably provided any comfort to MPM that this was a regulator of CWM and neither that there was some form of regulation and adequate controls and/or supervision on CWM equivalent to that applicable for regulated investment services providers.

ii. *Lack of clarity/convoluted information*

It is also noted that the Application Form submitted in respect of the purchase of the underlying policy includes lack of clarity and convoluted information relating to the investment advisor.

MPM, as Trustee of the Scheme, had clear sight of the said application and had indeed signed the application for the acquisition of the respective policy in its role as trustee.

It is noted that the Application Form of the policy provider refers to, and includes, the stamp of another party as financial advisor. The first page of the said application form includes a section titled '*Financial advisor details*' and a field for '*Name of financial advisor*', with such section including a stamp bearing the name of '*Inter-Alliance Worldnet Insurance Agents & Advisors Ltd*' ('Inter-Alliance') apart from reference to CWM. The two entities, both CWM and Inter-Alliance, are then featured in the section titled '*Financial advisor declaration*' of the said form with the same stamp of Inter-Alliance with a PO Box in Cyprus,

[52] http://mof.gov.cy/en/directorates-units/insurance-companies-control-service

again featuring here in the part titled *'Financial advisor stamp*' in the same section.

There is accordingly a lack of clarity on the exact entity ultimately taking responsibility for the investment advice being provided to the Complainant. For the reasons explained, the information on the financial advisor is also somewhat inconsistent between that included in MPM's application form and the application form of the issuer of the underlying policy.

iii. *No proper distinctions between CWM, Inter-Alliance and Trafalgar*

It is also unclear why the Annual Member Statements sent by MPM to the Complainant for the years ending December 2014 and 2015, indicated in the same statement '*Continental Wealth Management*' as '*Professional Advisor*' whilst at the same time indicated another party, '*Trafalgar International GmbH*' as the '*Investment Advisor*'. [53]

No indication or explanation of the distinction and differences between the two terms of '*Professional Advisor*' and '*Investment Advisor*' were either provided or emerged nor can reasonably be deduced.

Besides the lack of clarity on the entity taking responsibility for the investment advice and the lack of clear distinction/links between the indicated parties in the application forms and statements, it has also not emerged that the Complainant was provided with clear and adequate information regarding the respective roles and responsibilities between the different mentioned entities throughout.

If CWM was acting as an appointed agent of another party, such capacity, as an agent of another firm, should have been clearly reflected in the application forms and other documentation relating to the Scheme. Relevant explanations and implications of such agency relationship and respective responsibilities should have also been duly indicated without any ambiguity.

[53] Attachments to the Reply submitted by MPM before the Arbiter for Financial Services

It is also noted that during the proceedings of this case, MPM has not provided evidence of any agency agreement between CWM and Trafalgar.

In the reply that MPM sent directly to the Complainant in respect of his formal complaint, MPM itself explained that:

'*Momentum in its capacity as Trustee and RSA, in exercising its duty to you ensured: The full details of the Scheme, including all parties' roles and responsibilities were clearly outlined to you in the literature provided ensuring no ambiguity,*[54] *including but not limited to the initial application form and T&C, the Scheme Particulars and Trust Deed and Rules*'.[55]

The Arbiter does not have comfort that such a duty has been truly achieved in respect of the advisor for the reasons amply explained above.

iv. *No regulatory approval in respect of CWM*

During the proceedings of this case no evidence has emerged about the regulatory status of CWM. As indicated earlier, MPM provided no details about Inter-Alliance, and in its submissions only referred to the alleged links between CWM and Trafalgar.

In the affidavit of Stewart Davies, reference was made to the authorisations issued to Trafalgar International GmbH in Germany where reference was made that Trafalgar (and not CWM) was authorised and regulated by IHK, the Chamber of Commerce and Industry in Germany with the '*Insurance Mediation licence 34D Broker licence number: D-FE9C-BELBQ-24 and Financial Asset Mediator licence 34F: D-F-125-KXGB-53*'.[56]

The Arbiter exercising his investigative powers given by law, with respect to authorisations issued by IHK, has learnt from Case 068/2018[57] and Case

[54] Emphasis added by the Arbiter.
[55] Section 3, titled '*Overview of Momentum Controls in place in exercising a duty to all members*' in MPM's reply to the Complainant in relation to the complaint made in respect of the Scheme - *A fol.* 16
[56] para. 39 Section E, titled '*CWM and Trafalgar International GmbH*' in the affidavit of Stewart Davies - *A fol.* 126/127.
[57] Decided on 28 July 2020

172/2018[58] that correspondence involved replies issued by IHK in 2018 to queries made in respect of CWM.

In this regard, it is noted that in an email from IHK dated 19 April 2018, IHK indicated *inter alia* that it was not aware of an official affiliation between CWM and Trafalgar and that Trafalgar held the financial investment intermediation licence (34f para. 1 GewO) from June 2013 until March 2016 where the licence was '*not extendable'* and *'even back then it did not cover the activities of another legal personality*'.[59]

Similarly, in a letter dated 20 April 2018, issued by IHK, it was *inter alia* noted by IHK that:

'*Trafalgar International GmbH is a German limited company headquartered in Frankfurt am Main. The company currently holds a licence under 34d para.1 German Trade Law (German: Gewerbeordnung, GewO) (insurance intermediation). The German licence as an insurance intermediary cannot be extended to another legal personality and it does not authorize the licence holder to regulate other insurance or financial investment intermediaries.'*[60]

MPM's statement that CWM '*was operating under Trafalgar International GmbH licenses*'[61] has not been backed up by any evidence during the proceedings of this case and has actually been contradicted by communications issued by IHK as indicated above. It is accordingly clear that no comfort can be taken either from the authorisation/s held by Trafalgar.

Indeed, no evidence of any authorisation held by CWM in its own name or as an agent of a licensed institution, authorising it to provide advice on investment instruments and/or advice on investments underlying an insurance policy has, ultimately been produced or emerged during the proceedings of this case.

[58] Decided on 28 July 2020
[59] Case 068/2018, *a fol*. 166/167
[60] Case 172/2018, *a fol.* 12/13
[61] Para. 39, Section E titled *'CWM and Trafalgar International GmbH'* of the affidavit of Stewart Davies - *a fol.* 126

In the absence of such, **the mere explanations provided by MPM regarding the regulatory status of CWM, including that CWM '*was authorised to trade in Spain and in France by Trafalgar International GmbH,*'[62] are rather vague, inappropriate and do not provide sufficient comfort of an adequate regulatory status for CWM to undertake the investment advisory activities provided to the Complainant**.

This also taking into consideration that:

(i) Trafalgar is itself no regulatory authority;

(ii) the lack of clarity/incomplete information as to the regulatory status of the investment advisor in the Application Form for Membership as well as the confusing and unclear references in the sections relating to the investment advisor in other documentation as indicated above;

(iii) legislation covering the provision of investment advisory services in relation to investment instruments, namely the Markets in Financial Instruments Directive (2004/39/EC) already applied across the European Union since November 2007.

No evidence was provided that CWM, an entity indicated as being based in Spain, held any authorisation to provide investment advisory services, in its own name or in the capacity of an agent of an investment service provider under MiFID.

Article 23(3) of the MiFID I Directive, which applied at the time, indeed provided specific requirements on the registration of tied agents.[63]

No evidence of CWM featuring in the tied agents register in any EU jurisdiction was either produced or emerged.

Neither was any evidence produced of any exemption from licence under MiFID or that CWM held an authorisation or exemption under any other

[62] Pg. 1, Section A titled 'Introduction', of the Reply of MPM submitted before the Arbiter for Financial Services.
[63] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004L0039&from=EN

applicable European legislation for the provision of the contested investment advice.

The Service Provider noted *inter alia* that '*CWM was appointed agent of Trafalgar International GmbH*'.[64]

The nature of the agency agreement that CWM was claimed to have was not explained nor defined, and it was not indicated either in terms of which European financial services legislation such agency agreement was in force and permitted the provision of the disputed investment advice. Nor evidence of any agency agreement existing between CWM and any other party was produced during the proceedings of this case as indicated above.

Other observations & synopsis

As explained above, albeit being selected by the Complainant, the investment advisor was however accepted, at MPM's sole discretion, to act as the Complainant's investment advisor within the Scheme's structure.

The responsibility of MPM in accepting and allowing CWM to act in the role of investment advisor takes even more significance when one takes into consideration the scenario in which CWM was accepted by MPM. As indicated above, MPM accepted CWM when, as verified in the Complainant's Application Form for Membership, it was being stated in MPM's own application form that CWM was a regulated entity but no evidence has transpired that this was so, as amply explained above.

MPM allowed and left uncontested key information in its own Application Form for Membership of the Retirement Scheme with respect to the regulatory status of the investment advisor.

The Service Provider argued *inter alia* in its submissions that it was not required, in terms of the rules, to require the appointment of an advisor which was regulated during the years 2013-2015 under the SFA regime and until the implementation of Part B.9 titled '*Supplementary Conditions in the case of*

[64] Para. 39, Section E titled '*CWM and Trafalgar International GmbH*' of the affidavit of Stewart Davies.

entirely Member Directed Schemes' of the Pension Rules for Personal Retirement Schemes issued in terms of the RPA updated in December 2018, where the latter clearly introduced the requirement for the investment advisor to be regulated.[65]

The Arbiter notes in this regard that in his affidavit, Steward Davies highlighted that:

'There was no law or rule requiring Momentum to carry out any due diligence or ensure that CWM/ Trafalgar was licensed'. [66]

However, the Arbiter strongly believes that the aspect of scrutinising an investment advisor known to the RSA and Trustee to be operating in relation to a retirement scheme, impinges on the RSA and Trustee and their duty of care and professional diligence. This goes beyond the mere legalistic approach of shedding off responsibility by interpreting regulatory rules, which are in the first place intended to establish the minimum standards expected of a licensed operator, in such a way as to avoid responsibility.

The Arbiter wants to underscore that the compliance with regulatory rules does not substitute the further obligations that an RSA and Trustee of a retirement scheme have towards the members of the scheme.

As amply stated earlier in this decision under the section titled *'The legal framework'*, a Trustee must act diligently and professionally in the same way as a *bonus paterfamilias*. A *bonus paterfamilias* does not abdicate from his responsibilities to suit his interests.

The appointment of an entity such as CWM as investment advisor meant, in practice, that there was a layer of safeguard in less for the Complainant as compared to a structure where an adequately regulated advisor is appointed. **An adequately regulated financial advisor is subject to, for example, fitness and properness assessments, conduct of business requirements as well as ongoing supervision by a financial services regulatory authority. MPM, being a regulated entity itself, should have been duly and fully cognisant of this**.

[65] *A fol.* 127
[66] *Ibid.*

It is only in the best interests of the Complainant for MPM to ensure that the Complainant had correct and adequate key information about the investment advisor.

Besides the issue of the regulatory status of the advisor, MPM also allowed and left uncontested important information, which was convoluted, misleading, unclear and lacking as explained above, with respect to the investment advisor, namely in relation to:

- **CWM's alleged role as agent of another party, and the respective responsibilities of CWM and its alleged principal;**
- **the entity actually taking responsibility for the investment advice given to the Complainant as more than one entity was at times mentioned with respect to investment advice;**
- **the distinctions between CWM, Inter-Alliance and Trafalgar.**

It is also to be noted that apart from the above, MPM had itself a business relationship with CWM, having accepted it to act as its introducer of business. Such relationship gave rise to potential conflicts of interest, where an entity whose actions were subject to certain oversight by MPM on one hand was, on the other hand, channelling business to MPM.

Even in case where, under the previous applicable regulatory framework, an unregulated advisor was allowed by the trustee and scheme administrator to provide investment advice to the member of a member-directed scheme (on the basis of clear understanding by the member of such unregulated status and implications of such, and the member's subsequent clear consent for such type of advisor), **one would, at the very least, reasonably expect the retirement scheme administrator and trustee of such a scheme to exercise even more caution and prudence in its dealings with such a party in such circumstances.**

This is even more so when the activity in question, that is, one involving the recommendations on the choice and allocation of underlying investments, has such a material bearing on the financial performance of the Scheme and the objective to provide for retirement benefits.

It would have accordingly been only reasonable, to expect the trustee and retirement scheme administrator, as part of its essential and basic obligations and duties in such roles, to have an even higher level of disposition in the probing and querying of the actions of an unregulated investment advisor in order to ensure that the interests of the member of the scheme are duly safeguarded and risks mitigated in such circumstances.

The Arbiter does not have comfort that such level of diligence and prudence has been actually exercised by MPM for the reasons already stated in this section of the decision.

B. The permitted portfolio composition

Investment into Structured Notes

Preliminary observations

The sale of, and investment into, structured notes is an area which has attracted various debates internationally including reviews by regulatory authorities over the years. Such debates and reviews have been occurring even way back since the time when the Retirement Scheme was granted registration in 2011.

The Arbiter considers that caution was reasonably expected to be exercised with respect to investments in, and extent of exposure to, such products since the time of the Scheme's registration. Even more so when taking into consideration the nature of the Retirement Scheme and its specific objective.

Nevertheless, the exposure to structured notes allowed within the Complainant's portfolio was extensive, with the insurance policy underlying the Scheme being at times solely invested into such products and such instruments being the predominant investments within his portfolio as detailed in the section titled *'Underlying Investments'* above.

A typical definition of a structured note provides that:

'*A structured note is a debt security issued by financial institutions; its return is based on equity indexes, a single equity, a basket of equities, interest rates,*

commodities or foreign currencies. The return on a structured note is linked to the performance of an underlying asset, group of assets or index'.[67]

A structured note is further described as:

'*a debt obligation – basically like an IOU from the issuing investment bank – with an embedded derivative component; in other words, it invests in assets via derivative instruments'*.[68]

Whilst the Complainant has presented no fact sheets in respect of his underlying investments, as part of the investigatory powers granted under Cap. 555, the Office of the Arbiter for Financial Services managed to source fact sheets in respect of two structured notes with ISIN XS1048446428[69] and ISIN XS1057778505,[70] which formed part of the Complainant's portfolio.[71]

Apart from *inter alia* the credit risk of the issuer and the liquidity risk, other risks that are typically highlighted for structured notes with no guarantees on the return of the original capital invested, include the risk that the investor could possibly receive less than the original amount invested or potentially even losing all of the investment.

The underlying asset to which the structured notes were linked to typically comprised stocks. A particular frequent feature emerging of the type of structured notes invested into, involved the application of capital buffers and barriers. For example, the fact sheets sourced described and included warnings that the invested capital was at risk in case of a particular event occurring. Such event typically comprised a fall, observed on a specific date of more than a specified percentage, in the value of any underlying asset to which the structured note was linked. The fall in value would typically be observed on maturity/final valuation of the note.

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[67] https://www.investopedia.com/terms/s/structurednote.asp
[68] https://www.investopedia.com/articles/bonds/10/structured-notes.asp
[69] Sourced from a general search over the internet with the ISIN number of the product: https://www.portman-associates.com/wp-content/uploads/2014/03/Nomura-9-1Y-US-Technology-Income-FACTSHEET.pdf
[70] Sourced from a general search over the internet with the ISIN number of the product: https://www.portman-associates.com/wp-content/uploads/2014/05/Commerzbank-9-Fixed-Future-Pioneers-FACT-SHEET.pdf
[71] *A fol.* 197

The fact sheets indeed highlighted the risk that where the performance of the worst performing underlying measured a fall of 50% or more, investors would receive a capital amount equivalent to the performance of the worst performing asset.

It is accordingly clear that there were certain specific risks in the structured products invested into and there were material consequences if just one asset, out of a basket of assets to which the note respectively was linked, fell foul of the indicated barrier. **The implication of such a feature should have not been overlooked nor discounted. Given the said particular features neither should have comfort been derived regarding the adequacy of such products just from the fact that the structured notes were linked to a basket of quoted shares.**

Excessive exposure to structured products and to single issuers in respect of the Complainant's portfolio

The portfolio of investments in respect of the Complainant comprised at times solely or predominantly of structured products. Such excessive exposure to structured products occurred over a long period of time. This clearly emerges from the Table of Investments forming part of the '*Investor Profile*' provided by the Service Provider, the *'Historical Cash Account Transactions'* statement and as detailed in the section titled *'Underlying Investments'* above.

In addition, high exposures to the same single issuer/s, both through a singular purchase and/or through cumulative purchases in products issued by the same issuer emerged in the Complainant's portfolio.

Even in case where the issuer of the structured product was a large institution, the Arbiter does not consider this to justify or make the high exposure to single issuers acceptable even more in the Scheme's context. The maximum limits relating to exposures to single issuers outlined in the MFSA rules and MPM's own Investment Guidelines did not make any distinctions according to the standing of the issuer.

Hence, the maximum exposure limits to single counterparties should have been applied and ensured that they are adhered to across the board. The credit risk of the respective issuer was indeed still one of the applicable risks.

Moreover, one cannot have comfort that the structured notes were in themselves diversified through the exposure to their underlying as remarked by the Service Provider in its *'Investment Guidelines Commentary'* provided with its submissions,[72] given that as emerging from the risks highlighted in the fact sheets of the structured notes, the risk of loss was similar to an investment in the worst performing underlying. Accordingly, the maximum exposures applicable to single securities (stock) would have been more sensibly applied for such type of structured products.

Context of entire portfolio and substance of MPM's Investment Guidelines

For the avoidance of doubt and with reference to the emphasis made by the Service Provider for investments to be seen in the context of the entire portfolio,[73] the Arbiter would like to point out that consideration has indeed been duly made of the entire investment portfolio held in the Complainant's individual account within the Scheme including how such portfolio was constituted at inception and (to the extent possible on the basis of the information provided), how the constitution of the portfolio progressed over the years.

Furthermore, the Arbiter has also considered what percentage of the policy value each respective underlying investment constituted at the time of their respective purchase, on the basis of the information provided by the Service Provider itself in the table of *'Investor Profile'* attached to its submissions.[74] Consideration was then further made of how the said percentage allocation, reflected the maximum limits outlined in the investment restrictions and diversification requirements in the MFSA Rules as well as MPM's own Investment Guidelines that were applicable at the time of purchase.

It is to be pointed out that in the case of a member directed scheme, each member would have his/her own individual account within the retirement scheme, with such account having its own specific and distinct investment portfolio. Hence, it is only reasonable and correct for the principles, including the investment restrictions specified for the Retirement Scheme to have been

[72] *A fol.* 197
[73] Affidavit of Steward Davies - *A fol.* 125
[74] *A fol.* 197

applied and adhered to at the level of the individual account. Failure to do so would have meant that the safeguards emanating from the investment conditions and diversification requirements would have not been adopted and ensured in practice in respect of the individual member's portfolio, defeating the aim of such requirements in the first place.

The application of investment restrictions at a general level, that is at scheme level without application on an individual account basis, would only make sense and be reasonable in the context of, and where, the members of such a scheme are participating in the same portfolio of assets held within the scheme and not in the circumstance where the members have their own individual separate investment portfolios, as was the case in question.

An analogy can be made in this regard to the market practice long adopted in the context of collective investment schemes, namely in respect of *stand-alone schemes*[75] and *umbrella schemes*.[76] Whilst investment restrictions would be applied at scheme level in the case of a stand-alone scheme (given that the investors into such scheme would be participating, according to their respective share in the scheme, in the performance of the same underlying investment portfolio), in the case of an umbrella fund, the investment restrictions are not applied at scheme level but at the sub-fund level and would indeed be tailored for each individual sub-fund given that each sub-fund would have its own distinct and separate investment portfolio and investment policy.

As to the substance of MPM's Investment Guidelines, it is noted that the Service Provider seemed to somehow downplay the importance and weighting of its own Investment Guidelines by stating that these were just to provide guidance *'but should not be applied so strictly so as to stultify the ultimate objective, that the investment is placed in the best interests of the member'*.[77]

Apart that it is contradictory to infer that by not adhering with the guidelines one would be acting in the best interests of the member - given that the scope of such guidelines should have been, in the first place, to ensure that the portfolio is diversified and risks are spread and thus to ensure the best interests

[75] i.e. a collective investment scheme without sub-funds.
[76] i.e. a collective investment scheme with sub-funds, where each sub-fund would typically have its own distinct investment policies and separate and distinct investment portfolios.
[77] *A fol.* 125 - Para. 32 of the affidavit of Stewart Davies.

of the member - it has, in any case, not been demonstrated or justified in any way what instances were somehow deemed appropriate by the Service Provider where it was more in the best interests of the member to depart and not comply with the investment guidelines rather than to ensure adherence thereto.

It is further to be noted that the specific parameters and limits outlined in MPM's Investment Guidelines were themselves stipulated in MPM's key documentation and, as specified in the same documentation, MPM itself had to ensure adherence with the specified limits and conditions in its role of Trustee of the Retirement Scheme.[78]

Furthermore, no qualifications or any disclaimers regarding the compliance or otherwise with such guidelines have emerged in this case. Neither has it emerged in what circumstances, divergences could possibly be permitted, if at all. Hence, the stipulated Investment Guidelines were binding and should have been followed accordingly. Even if one had to, for the sake of the argument only (which was not the case as outlined above), somehow construe that these were *'just'* guidelines and not strict rules as the Service Provider tried to argue,[79] one would in any case reasonably not expect any major departure from the limits and maximum exposures specified in the stipulated guidelines.

With respect to the Complainant's portfolio, it is considered that not only were various investments not reflective of MPM's Investment Guidelines but, on multiple occasions, there were material departures from such guidelines where the maximum limits were materially exceeded as outlined further below.

Portfolio not reflective of the MFSA rules

The high exposure to structured products (as well as high exposure to single issuers in respect of the Complainant), which was allowed to occur by the Service Provider in the Complainant's portfolio, jarred with the regulatory requirements that applied to the Retirement Scheme at the time, particularly Standard Operational Condition ('SOC') 2.7.1 and 2.7.2 of the '*Directives for Occupational Retirement Schemes, Retirement Funds and Related Parties under*

[78] For example, as clearly outlined in the Investment Guidelines marked 'January 2013' and 'Mid-2014' in the Scheme's Application Form.
[79] *A fol.* 125 - Para. 32 of the affidavit of Stewart Davies.

the Special Funds (Regulation) Act, 2002', ('the Directives') which applied from the Scheme's inception in 2011 until the registration of the Scheme under the RPA on 1 January 2016. The applicability and relevance of these conditions to the case in question was highlighted by MPM itself.[80]

SOC 2.7.1 of Part B.2.7 of the Directives required *inter alia* that the assets were to '*be invested in a prudent manner and in the best interest of beneficiaries …*'.

SOC 2.7.2 in turn required the Scheme to ensure *inter alia* that, the assets of a scheme are '*invested in order to ensure the security, quality, liquidity and profitability of the portfolio as a whole*'[81] and that such assets are '*properly diversified in such a way as to avoid accumulations of risk in the portfolio as a whole*'.[82]

SOC 2.7.2 of the Directives also provided other benchmarks including for the portfolio to be '*predominantly invested in regulated markets*';[83] to be '*properly diversified in such a way as to avoid excessive exposure to any particular asset, issuer or group of undertakings'*[84] where the exposure to single issuer was: in the case of investments in securities issued by the same body limited to no more than 10% of assets; in the case of deposits with any one licensed credit institution limited to 10%, which limit could be increased to 30% of the assets in case of EU/EEA regulated banks; and where in case of investments in properly diversified collective investment schemes, which themselves had to be predominantly invested in regulated markets, limited to 20% of the scheme's assets for any one collective investment scheme.[85]

Despite the standards of SOC 2.7.2, MPM allowed the portfolio of the Complainant to, at times, comprise solely and predominantly of structured products.

In the case of the Complainant it has also clearly emerged that individual exposures to single issuers were at times even higher than 30%, this being the maximum limit applied in the Rules to relatively safer investments such as

[80] Para. 21 & 23 of the Note of Submissions filed by MPM - *A fol.* 181
[81] SOC 2.7.2 (a)
[82] SOC 2.7.2 (b)
[83] SOC 2.7.2 (c)
[84] SOC 2.7.2 (e)
[85] SOC 2.7.2 (h)(iii) & (v)

deposits as outlined above. As also mentioned above, it would have been more sensible for the maximum limit of 10% applicable to single issuers in case of securities to have been similarly applied for those structured products which featured barrier events and provided risk of loss similar to an investment in the worst performing underlying. Instead, there were exposure as high as 39% of the policy value at the time of purchase in the case for example of the investment into the RBC Energy Note and the Nomura 9% US Technology Inc, respectively.[86]

The structured products invested into were also not indicated, during the proceedings of this case, as themselves being traded in or dealt on a regulated market. The portfolio also included material positions into high risk investments where the high risk is reflected in, for example, the high rate of return of 9% p.a. which featured in the fact sheets sourced and name of the structured products themselves.[87]

*Portfolio not reflective of MPM's **own** Investment Guidelines*

In its submissions, MPM produced a copy of the Investment Guidelines marked 'January 2013' and 'Mid-2014', which guidelines featured in the Application Form for Membership, and also Investment Guidelines marked '2015', '2016', 'Mid-2017', 'Dec-2017' and '2018' where, it is understood the latter respectively also formed part of the Scheme's documentation such as the Scheme Particulars issued by MPM.

Despite that the Service Provider claimed that the investments made in respect of the Complainant were in line with the Investment Guidelines, **MPM has however not adequately proven such a claim**.

The investment portfolio in the case reviewed was ultimately at times solely or predominantly invested in structured notes for a long period of time.

[86] *A fol.* 197
[87] *Ibid.*

It is also to be noted that over 98% of the underlying policy was invested into just three structured notes at the time of the purchase of such products in March 2014.[88]

It is unclear how a portfolio composition solely or predominantly invested in structured notes truly satisfied certain conditions specified in MPM's own Investment Guidelines such as:

(i) **The requirement that the member's assets had to be '*predominantly invested in regulated markets*'**.

This was a condition which prevailed in all of the presented MPM's Investment Guidelines since January 2013 till that of 2018.[89]

The said requirement of being '*predominantly invested in regulated markets*' meant, and should have been construed to mean, that investments had to be predominantly invested in listed instruments, that is financial instruments that were admitted to trading. With reference to industry practice, the terminology of '*regulated markets*' is referring to a regulated exchange venue (such as a stock exchange or other regulated exchange).

The term '*regulated markets*' is in fact commonly referred to, defined and applied in various EU Directives relating to financial services, including diversification rules applicable on other regulated financial products.[90] Hence, the interpretation of '*regulated markets*' has to be seen in such context.

The reference to '*predominantly invested in regulated markets*' cannot be interpreted as referring to the status of the issuers of the products and it is typically the product itself which has to be traded on the regulated market and not the issuer of the product.

[88] *A fol.* 197 - 39.26% in respect of the RBC Energy Note; 39.26% in the Nomura 9% US Technology Inc and 19.63% in Commerzbank 9% Future Pioneers all purchased at the same time in March 2014.
[89] Investment Guidelines attached to the affidavit of Stewart Davies.
[90] Such as UCITS schemes - the Undertakings for Collective Investments in Transferable Securities (UCITS) Directive (Directive 2009/65/EC as updated). The Markets in Financial Instruments Directive (MiFID) (Directive 2004/39/EC as repealed by Directive 2014/65/EU) also includes a definition as to what constitutes a '*regulated market'*.

Moreover, a look through approach, could not either be sensibly applied to the structured notes for the purposes of such condition taking into consideration the nature and particular features of the structured notes invested into.

No evidence was submitted that predominantly the portfolio, which comprised solely/predominantly of structured notes, constituted listed structured notes in respect of the Complainant. On its part, the Service Provider did not prove that the portfolio of the Complainant was '*predominantly invested in regulated markets*' on an ongoing basis.

Furthermore, when investment in unlisted securities was itself limited to 10% of the Scheme assets, as stipulated throughout MPM's own Investment Guidelines for 2013 to 2018, it is unclear how the Trustee and Scheme Administrator chose to allow higher exposures (as indicated in this section) to structured notes, a debt security, which are typically unlisted.

(ii) **The requirement relating to the liquidity of the portfolio.**

The Investment Guidelines of MPM marked January 2013 required no more than a '*maximum of 40% of the fund*[91] *in assets with liquidity of greater than 6 months*'. This requirement remained, in essence, also reflected in the Investment Guidelines marked 'Mid-2014' which read

'*Has a maximum of 40% of the fund in assets with expected liquidity of greater than 6 months*',

as well as in the subsequent Investment Guidelines marked 2015 till 2018 which were updated by MPM and tightened further to read a

'*maximum of 40% of the fund in assets with expected liquidity of greater than 3 months but not greater than 6 months*'.

It is evident that the scope of such requirement was to ensure the liquidity of the portfolio as a whole by having the portfolio predominantly (that is, at least 60%) exposed to liquid assets which could be easily redeemed

[91] The reference to '*fund*' is construed to refer to the member's portfolio.

within a short period of time, that is 3-6 months (as reflected in the respective conditions) whilst limiting exposure to those assets which take longer to liquidate to no more than 40% of the portfolio.

It is noted that the structured notes invested into typically do not have a maturity of a few months but a longer term of one or more years. The bulk of the assets within the policy was, at times, invested into a few structured notes as already mentioned. It is unclear how the 40% maximum limit referred to above could have been satisfied in such circumstances where the portfolio was predominantly invested into structured notes which themselves had long investment terms.

It is further noted that the possibility of a secondary market existing for structured notes meant that a buyer had to be first found in the secondary market in case one wanted to redeem a holding into the structured note prior to its maturity.

The secondary market could not have provided an adequate level of comfort with respect to liquidity.

There are indeed various risks highlighted in relation to the secondary market as highlighted in the fact sheets sourced.

MPM should have been well aware about the risks associated with the secondary market. It has indeed itself seen the material lower value that could be sought on such market in respect of the structured notes invested into. The lower values of the structured notes on the secondary market was indeed affecting the value of the Scheme as can be deduced from the respective Annual Member Statements that MPM itself produced.

Hence, no sufficient comfort about liquidity could have possibly been derived with respect to the secondary market in case of unlisted structured notes.

The Arbiter is not accordingly convinced that the conditions relating to liquidity were being adequately adhered to either, nor that the required prudence was being exercised with respect to the liquidity of the portfolio, when considering the above-mentioned aspects and when

keeping into context that the portfolio of investments that was allowed to develop within the Retirement Scheme was, at times, solely/predominantly invested into the said structured notes.

It is also to be noted that <u>even if one had to look at the composition of the Complainant's portfolio purely from other aspects, there is still undisputable evidence of non-compliance with other requirements detailed in MPM's own Investment Guidelines</u>.

This is particularly so with respect to the requirements applicable regarding the proper diversification, avoidance of excessive exposure and permitted maximum exposure to single issuers.

Table A below shows some examples of excessive single exposures allowed within the portfolio of the Complainant as emerging from the respective '*Table of Investments*' forming part of the '*Investor Profile*' produced by MPM as part of its submissions.

Table A – Examples of Excessive Exposure to a Single Issuer of Structured Notes ('SNs')

Exposure to single issuer in % terms of the policy value at time of purchase	*Issuer*	*Date of purchase*	*Description*
39.26%	RBC	March 2014	1 SN issued by RBC constituted 39.26% of the policy value at the time of purchase in March 2014.
39.26%	Nomura	March 2014	1 SN issued by Nomura constituted 39.26% of the policy value at the time of purchase in March 2014.
Approx. 56%	EFG	April/ May 2015	4 SNs issued by EFG respectively constituted 8.16%, 8.16%, 27.75%, 12.01% at the time of purchase in April/May 2015.

The fact that such high exposures to a single counterparty was allowed in the first place indicates, in itself, the lack of prudence and excessive exposure and risks to single counterparties that were allowed to be taken on a general level.

The Arbiter notes that the Service Provider has along the years revised various times the investment restrictions specified in its own '*Investment Guidelines*' with respect to structured products, both in regard to maximum exposures to structured products and maximum exposure to single issuers of such products. The exposure to structured notes and their issuers was indeed progressively and substantially reduced over the years in the said Investment Guidelines.

The specified maximum limit of 66% of the portfolio value in structured notes having underlying guarantees which featured in the '*Investment Guidelines*' marked 2015[92] was reduced to 40% of the portfolio's value in the '*Investment Guidelines*' marked December 2017[93] and, subsequently, reduced further to 25% in the '*Investment Guidelines*' for 2018.[94]

Similarly, the maximum exposure to single issuers for '*products with underlying guarantees*', that is structured products as referred to by MPM itself, in the '*Investment Guidelines*' marked Mid-2014 and 2015 specifically limited maximum exposure to the same issuer default risk to no more than (33.33%), one third of the portfolio. The maximum limit to such products was subsequently reduced to 25%, one quarter of the portfolio, in the '*Investment Guidelines'* marked 2016[95] and mid-2017,[96] reduced further to 20% in the '*Investment Guidelines*' marked December 2017 and, subsequently, to 12.5% in the '*Investment Guidelines*' for 2018.

Even before the Investment Guidelines of Mid-2014, MPM's Investment Guidelines of January 2013 <u>still limited exposure to individual investments (aside from collective investment schemes) to 20%</u>.

[92] MPM's Investment Guidelines '2015' as attached to the affidavit of Stewart Davies
[93] MPM's Investment Guidelines 'Dec-2017' as attached to the affidavit of Stewart Davies
[94] MPM's Investment Guidelines '2018' as attached to the affidavit of Stewart Davies
[95] MPM's Investment Guidelines '2016' as attached to the affidavit of Stewart Davies
[96] MPM's Investment Guidelines 'Mid-2017' as attached to the affidavit of Stewart Davies

In the case reviewed, there were instances where the extent of exposure to single issuers was even higher than one-third of the policy value as amply indicated in the above table. There is clearly no apparent reason, from a prudence point of view, justifying such high exposure to single issuers.

Indeed, the Arbiter considers that the high exposure to structured products as well as to single issuers in the Complainant's portfolio jarred, and did not reflect to varying degrees, with one or more of MPM's own investment guidelines applicable at the time when the investments were made, most particularly with respect to the following guidelines:[97]

Investment Guidelines marked 'January 2013':
○ ***Properly diversified*** *in such a way as to* ***avoid excessive exposure****:*
▪ *If* ***individual investments*** *or equities are considered then* ***not more than 20% in any singular asset****, aside from collective investments.*
▪ *…*
▪ ***Singular structured products should be avoided due to the counterparty risk*** *but are acceptable as part of an overall portfolio.*
Investment Guidelines marked 'Mid-2014':
• *Where products with underlying guarantees are chosen,* ***no more than one third of the overall portfolio to be subject to the same issuer default risk****.*
In addition, ***further consideration needs to be given to*** *the following factors:* • *…* • ***Credit risk of underlying investment*** • *…* *…*
• *In addition to the above, the portfolio must be constructed in such a way as to* ***avoid excessive exposure****:* • *...* • ***To any single credit risk***
Investment Guidelines marked '2015':
• *Where products with underlying guarantees are chosen, i.e.* ***Structured Notes****, these will be* ***permitted up to a maximum of 66% of the portfolio's values****,*

[97] Emphasis in the mentioned guidelines added by the Arbiter.

*with **no more than one third** of the portfolio to be **subject to** the **same issuer default risk**.*
*In addition, **further consideration needs to be given to** the following factors:* • *…* • ***Credit risk of underlying investment*** • *…* *…*
• *In addition to the above, the portfolio must be constructed in such a way as to **avoid exposure**:* • *...* • ***To any single credit risk**.*
<u>Investment Guidelines marked '2016' & 'Mid-2017':</u>
• *Where **products with underlying Capital guarantees** are chosen, **i.e. Structured Notes**, these will be **permitted up to a maximum of 66% of the portfolio's values**,*
*with **no more than one quarter** of the portfolio to be **subject to** the **same issuer/ guarantor default risk**.*
• ***Where no such Capital guarantee exists**, investment will be **permitted up to a maximum of 50% of the portfolio's value**.* *…*
• *In addition, **further consideration needs to be given to** the following factors:* • *…* • ***Credit risk of underlying investment**;* *…*
• *In addition to the above, the portfolio must be constructed in such a way as to **avoid exposure**:* • *...* • ***To any single credit risk**.*

Besides the mentioned excessive exposure to single issuers, it is also noted that additional investments into structured notes were observed[98] to have been allowed to occur within the Complainant's portfolio, in excess of the limits allowed on the overall maximum exposure to such products. MPM's Investment Guidelines of 2015, 2016 and mid-2017, specifically mentioned a maximum limit of 66% of the portfolio value to structured notes.

[98] 'Table of Investments' in the 'Investor Profile' provided by MPM refers - *A fol.* 197

In the case reviewed, the Service Provider still continued to allow further investments into structured products at one or more instances when the said limits should have applied.

The additional investments also occurred despite the portfolio being already exposed to structured notes more than the said percentage at the time when the additional purchase was being made.

For the reasons amply explained, the Arbiter has no comfort that MPM's role as RSA and Trustee in ensuring the Scheme's investments are managed in accordance with relevant legislation and regulatory requirements and in accordance with its own documentation, has been truly achieved by MPM generally, and at all times, in respect of the Complainant's investment portfolio.

Other observations & synopsis

The Service Provider did not help its case by not providing detailed information on the underlying investments as already stated in this decision.

Although the Service Provider filed a Table of Investments, it did not provide adequate information to explain the portfolio composition and justify its claim that the portfolio was diversified. It did not provide fact sheets in respect of the investments comprising the portfolio of the Complainant and it did not demonstrate the features and the risks attached to the investments.

Various aspects had to be taken into consideration by the Service Provider with respect to the portfolio composition.

Such aspects include, but are not limited to:

- the nature of the structured products being invested into and the effects any events or barriers that may form part of the key features of such products, would have on the investment if and when such events occur as already detailed above;

- the potential rate of returns as indicative of the level of risk being taken;

- the level of risks ultimately exposed to in the respective product and in the overall portfolio composition; and

- not the least, the issuer/counterparty risk being taken.

It is also to be noted that in its *'Investment Guidelines Commentary'* that was provided with its submissions, the Service Provider stated that:

***'Most of the loss was incurred on the first signed Structured Note Trade Instruction signed by Mr PG*.**[99]

This is incorrect as substantial losses have occurred not just on the first structured note investment, but also cumulatively on various other structured notes as outlined in the tables under the section titled *'Underlying Investments'* above.

The extent of realised losses experienced on the capital of the Complainant's portfolio is in itself indicative of the failure in adherence with the applicable conditions on diversification and avoidance of excessive exposures. Otherwise, material losses, which are reasonably not expected to occur in a pension product whose scope is to provide for retirement benefits, would have not occurred.

Apart from the fact that no sensible rationale has emerged for limiting the composition of the pension portfolio at times solely or predominantly to structured products, no adequate and sufficient comfort has either emerged that such composition reflected the prudence expected in the structuring and composition of a pension portfolio. Neither that the allocations were in the best interests of the Complainant despite his risk profile of Medium Risk.

In the circumstance where the portfolio of the Complainant was at times, solely or predominantly, invested in structured products with a high level of exposure to single issuer/s, and for the reasons amply explained above, the Arbiter does not consider that there was proper diversification nor that the portfolio was at all times '*invested in order to ensure the security, quality,*

[99] *A fol.* 197

liquidity and profitability of the portfolio as a whole'[100] **and '*** ***properly diversified in such a way as to avoid accumulations of risk in the portfolio as a whole'*** **.**[101]

Apart from the fact that the Arbiter does not have comfort that the portfolio was reflective of the conditions and investment limits outlined in the MFSA's Rules and MPM's own Investment Guidelines, **it is also being pointed out that over and above the duty to observe specific maximum limits relating to diversification as may have been specified by rules, directives or guidelines applicable at the time, the behaviour and judgement of the Retirement Scheme Administrator and Trustee of the Scheme is expected to, and should have gone beyond compliance with maximum percentages and was to, in practice, reflect the spirit and principles behind the regulatory framework and in practice promote the scope for which the Scheme was established.**

The excessive exposure to structured products and their issuers nevertheless clearly departed from such principles and cannot ultimately be reasonably considered to satisfy and reflect in any way a suitable level of diversification nor a prudent approach.

This is even more so when considering the crucial aim of a retirement scheme being that to provide for retirement benefits – an aspect which forms the whole basis for the pension legislation and regulatory framework to which the Retirement Scheme and MPM were subject to. The provision of retirement benefits was indeed the Scheme's sole purpose as reflected in the Scheme Particulars.

C. The Provision of information

Another aspect raised by the Complainant related to the lack of reporting and notifications about his investment transactions. With respect to reporting to the member of the Scheme, MPM mentioned and referred only to the Annual Member Statement in its submissions. The said annual statements issued by the Service Provider to the Complainant are however highly generic reports which only listed the underlying life assurance policy and included no details of the

[100] SOC2.7.2(a) of Part B.2.7 of the Directives
[101] SOC2.7.2(b) of Part B.2.7 of the Directives

underlying investments, that is, the structured notes comprising the portfolio of investments.

Hence, the extent and type of information sent to the Complainant by MPM as a member of the Scheme in respect of his underlying investments is considered to have been lacking and insufficient.

SOC 9.3(e) of Part B.9 of the Pension Rules for Personal Retirement Schemes of 1 January 2015 already provided that, in respect of member directed schemes,

'*a record of all transactions (purchases and sales) occurring in the member's account during the relevant reporting period should be provided by the Retirement Scheme Administrator to the Member at least once a year and upon request* …'.

It is noted that the Pension Rules for Personal Retirement Schemes under the RPA became applicable to MPM on 1 January 2016 and that, as per the MFSA's communications presented by MPM,[102] Part B.9 of the said rules did not become effective until the revised rules issued in 2018.

Nevertheless, it is considered that even where such condition could have not strictly applied to the Service Provider from a regulatory point of view, the Service Provider as a Trustee, obliged by the TTA to act as a *bonus paterfamilias* and in the best interests of the members of the Scheme, should have felt it its duty to provide and report fully to members adequate information on the underlying investment transactions.

Moreover, prior to being subject to the regulatory regime under the RPA, the Service Provider was indeed already subject to regulatory requirements relating to the provision of adequate information to members such as the following provisions under the SFA framework:

- Standard Operating Conditions 2.6.2 and 2.6.3 of Section B.2 of the Directives for Occupational Retirement Schemes, Retirement Funds and

[102] MFSA's letter dated 11 December 2017, attached to the Note of Submissions filed by MPM in 2019.

Related Parties under the Special Funds (Regulation) Act, 2002[103] respectively already provided that:

'2.6.2 *The Scheme Administrator shall act with due skill, care and diligence in the best interests of the Beneficiaries. Such action shall include:*

…

b) ensuring that contributors and prospective contributors are provided with adequate information on the Scheme to enable them to take an informed decision …';

'2.6.3 *The Scheme Administrator shall ensure the adequate disclosure of relevant material information to prospective and actual contributors in a way which is fair, clear and nor misleading. This shall include:*

…

b) reporting fully, accurately and promptly to contributors the details of transactions entered into by the Scheme …'.

There is no apparent and justified reason why the Service Provider did not report itself on key information such as the composition of the underlying investment portfolio, which it had in its hands as the trustee of the underlying life assurance policy held in respect of the Complainant.

The general principles of acting in the best interests of the member and those relating to the duties of trustee as already outlined in this decision[104] and to which MPM was subject to, should have prevailed and should have guided the Service Provider in its actions to ensure that the Member was provided with an adequate account of the underlying investments within his portfolio.

[103] Condition 2.2 of the Certificate of Registration issued by the MFSA to MPM dated 28 April 2011 included reference to Section B.2 of the said Directives.
[104] The section titled '*Responsibilities of the Service Provider*'

The provision of details on the underlying investments could have ultimately enabled the member of the Scheme to highlight any transactions on which there were any issues.

Causal link and Synopsis of main aspects

The actual cause of the losses experienced by the Complainant **cannot** just be attributed to the under-performance of the investments as a result of general market and investment risks and/or the issues alleged against one of the structured note providers, as MPM has *inter alia* suggested in these proceedings.[105]

There is sufficient and convincing evidence of deficiencies on the part of MPM in the undertaking of its obligations and duties as Trustee and Retirement Scheme Administrator of the Scheme as amply highlighted above which, at the very least, impinge on the diligence it was required and reasonably expected to be exercised in such roles.

It is also evidently clear that such deficiencies prevented the losses from being minimised and in a way contributed in part to the losses experienced. The actions and inactions that occurred, as explained in this decision, enabled such losses to result within the Scheme, leading to the Scheme's failure to achieve its key objective.

Had MPM undertaken its role adequately and as duly expected from it, in terms of the obligations resulting from the law, regulations and rules stipulated thereunder and the conditions to which it was subject to in terms of its own Retirement Scheme documentation as explained above, such losses would have been avoided or mitigated accordingly.

The actual cause of the losses is indeed linked to and cannot be separated from the actions and/or inactions of key parties involved with the Scheme, with MPM being one of such parties.

In the particular circumstances of the cases reviewed, the losses experienced on the Retirement Scheme are ultimately tied, connected and attributed to

[105] For example, in the reference to litigation filed against Leonteq - *A fol.* 129.

events that have been allowed to occur within the Retirement Scheme which MPM was duty bound and reasonably in a position to prevent, stop and adequately raise as appropriate with the Complainant.

Final remarks

As indicated earlier, the role of a retirement scheme administrator and trustee does not end, or is just strictly and solely limited, to the compliance of the specified rules. The wider aspects of its key role and responsibilities as a trustee and scheme administrator must also be kept into context.

Whilst the Retirement Scheme Administrator was not responsible to provide investment advice to the Complainant nor was an investment manager as indicated by the Complainant, the Retirement Scheme Administrator had however clear duties to check and ensure that the portfolio composition recommended by the investment advisor provided a suitable level of diversification and was *inter alia* in line with the applicable requirements in order to ensure that the portfolio composition was one enabling the aim of the Retirement Scheme to be achieved with the necessary prudence required in respect of a pension scheme.

The oversight function is an essential aspect in the context of personal retirement schemes as part of the safeguards supporting the objective of retirement schemes.

It is considered that, had there been a careful consideration of the contested structured products and extent of exposure to such products and their issuers, the Service Provider would and should have intervened, queried, challenged and raised concerns on the portfolio composition recommended and not allow the overall risky position to be taken in structured products as this ran counter to the objectives of the retirement scheme and was not in the Complainant's best interests amongst others.

The Complainant ultimately relied on MPM as the Trustee and Retirement Scheme Administrator of the Scheme as well as other parties within the Scheme's structure, to achieve the scope for which the pension arrangement

was undertaken, that is, to provide for retirement benefits and also reasonably expect a return to safeguard his pension.

Whilst losses may indeed occur on investments within a portfolio, a properly diversified and balanced and prudent approach, as expected in a pension portfolio, should have mitigated any individual losses and, at the least, maintain rather than substantially reduce the original capital invested.

For the reasons amply explained, it is accordingly considered that there was, at the very least, a clear lack of diligence by the Service Provider in the general administration of the Scheme in respect of the Complainant and in carrying out its duties as Trustee, particularly when it came to the dealings and aspects involving the appointed investment advisor; the oversight functions with respect to the Scheme and portfolio structure; as well as the reporting to the Complainant on the underlying portfolio.

It is also considered that there are various instances which indicate non-compliance by the Service Provider with applicable requirements and obligations as amply explained above in this decision.

The Arbiter also considers that the Service Provider did not meet the '*reasonable and legitimate expectations*'[106] of the Complainant who had placed his trust in the Service Provider and others, believing in their professionalism and their duty of care and diligence.

Conclusion

For the above-stated reasons, the Arbiter considers the complaint to be fair, equitable and reasonable in the particular circumstances and substantive merits of the case and is accepting it in so far as it is compatible with this decision.

Cognisance needs to be taken however of the responsibilities of other parties involved with the Scheme and its underlying investments, particularly, the role and responsibilities of the investment advisor to the Member of the Scheme.

[106] Cap. 555, Article 19(3)(c)

Hence, having carefully considered the case in question, the Arbiter considers that the Service Provider is to be partially held responsible for the losses incurred.

Compensation

Being mindful of the key role of Momentum Pensions Malta Limited as Trustee and Retirement Scheme Administrator of the Momentum Malta Retirement Trust and in view of the deficiencies identified in the obligations emanating from such roles as amply explained above, which deficiencies are considered to have prevented the losses from being minimised and in a way contributed in part to the losses experienced on the Retirement Scheme, the Arbiter concludes that the Complainant should be compensated by Momentum Pensions Malta Limited for part of the realised losses on his pension portfolio.

In the particular circumstances of this case, considering that the Service Provider had the last word on the investments and acted in its dual role of Trustee and Retirement Scheme Administrator, the Arbiter considers it fair, equitable and reasonable for Momentum Pensions Malta Limited, to be held responsible for seventy per cent of the net realised losses sustained by the Complainant on his investment portfolio.

The Arbiter notes that the Historical Cash Account Transactions statement was at 27/09/17 and there were still open investment positions within the portfolio constituted by CWM at the time of such statement and hence the position (inclusive of dividends) on some of the investments is incomplete as indicated in Table B in the section titled *'Underlying Investments'* above.

The Arbiter shall accordingly formulate how compensation is to be calculated by the Service Provider for the purpose of this decision in order for the performance on the whole investment portfolio to be taken into consideration.

The Service Provider is accordingly being directed to pay the Complainant compensation equivalent to 70% of the sum of the Net Realised Loss incurred within the whole portfolio of underlying investments constituted under Continental Wealth Management and allowed by the Service Provider.

The Net Realised Loss calculated on such portfolio shall be determined as at the date of this decision and calculated as follows:

(i) For every such investment it shall be calculated any realised loss or profit resulting from the difference in the purchase value and the sale/maturity value (amount realised).

Any realised loss so calculated on such investment shall be reduced by the amount of any total interest or other total income received from the respective investment throughout the holding period to determine the actual amount of realised loss, if any;

(ii) In case where an investment in (i) above is calculated to have rendered a profit after taking into consideration the amount realised (inclusive of any total interest or other total income received from the respective investment), such realised profit shall be accumulated from all such investments and netted off against the total of all the realised losses from the respective investments calculated as per (i) above to reach the figure of the Net Realised Loss within the indicated portfolio.

The computation of the Net Realised Loss shall accordingly take into consideration any realised gains or realised losses arising within the portfolio.

In accordance with Article 26 (3)(c)(iv) of Chapter 555 of the Laws of Malta, the Arbiter orders Momentum Pensions Malta Limited to pay the indicated amount of compensation to the Complainant.

A full and transparent breakdown of the calculations made by the Service Provider in respect of the compensation as decided in this decision, should be provided to the Complainant.

With legal interest from the date of this decision till the date of payment.

Because of the novelty of this case each party is to bear its own legal costs of these proceedings.

Dr Reno Borg
Arbiter for Financial Services