Financial Services Commission

Guidance Note

Capital Requirements Directive

Markets in Financial Instruments Directive

Audit Requirements, & Other Obligations & Disclosures

Issued: April 2008

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Please be advised that this Guidance Note is dated and does not take into account any changes arising from the Capital Requirements Directive (2013/36/EU), transposed into local legislation as the Financial Services (Capital Requirements Directive IV) Regulations ("Gibraltar Regulations"), or the Capital Requirements Regulations (575/2013) ("EU Regulations") of the European Parliament and of the Council of 26 June 2013. Where there is a discrepancy between the contents of the Guidance Note and the requirements set in the Gibraltar and/or EU Regulations, the entity is to refer to and comply with the requirements set in the Gibraltar Regulations and the EU Regulations.

The FSC is working to update the Guidance Note and whilst every reasonable effort is made to ensure that the information provided on the FSC's website is accurate, no guarantee for the accuracy of the information is made. The FSC does not give any express or implied warranty as to the accuracy of the information contained in this document. The FSC does not accept any liability for error or omission.

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Application and Purpose

1. This Guidance Note applies to locally incorporated credit institutions and investment firms to which either the Capital Requirements Directive (CRD)[1] or the Markets in Financial Instruments Directive (MiFID)[2] apply. The aim of the Guidance Note is to supplement the various legislative requirements in relation to the audit and reporting requirements which apply to these types of firms.

2. The Financial Services Act 1998 ('FSA 1998') together with Administrative Notice Number 1 were repealed on 1 November 2007 on the introduction of the Financial Services (Markets in Financial Instruments) Act. Accordingly this Guidance Note also sets out the transitional audit and reporting requirements which apply to those firms which were previously authorised under the Financial Services Act 1998 and whose accounting period spans 1 November 2007.

3. Where a firm's accounting period spans 1 November 2007, the accounting records requirements and requirements on the implementation of systems over client monies and client assets up to 31 October 2007 are covered respectively by Part 5 [Customer Money] and Part 2 [Accounting Records] of the Financial Services (Accounting and Financial) Regulations 1991, and Section 44 of the Financial Services Conduct of Business (Investment Firms and Intermediaries) Regulations 2006. The reporting requirements post 1 November 2007 are covered under the headings MiFiD and CRD below.

Audit reporting deadlines

4. Audited financial statements must be submitted to the Financial Services Commission within four months of the firm's accounting year end.

5. The additional auditor's report to the Financial Services Commission required under this Guidance Note must also be submitted to the Financial Services Commission within four months of the firm's accounting year end.

Audit reports to the FSC

6. Firms to which both MiFiD and CRD apply should follow the format, content and wording specified in Appendix A.

7. Firms to which only the CRD applies (e.g. certain credit institutions) should follow the format, content and wording specified in Appendix B.

MiFID

Reporting Requirements (general information)

8. Regulation 20 of the Financial Services (Markets in Financial Instruments) Regulations, requires investment firms to ensure that their external auditors report, at least annually, to the competent authority on the adequacy of the firm's arrangements under section 13(7) and 13(8) of the Financial Services (Markets in Financial Instruments) Act and the Financial Services (Markets in Financial Instruments) Regulations. This Guidance Note therefore refers to the most salient

[1] Comprising Directive 2006/48/EC and Directive 2006/49/EC and implemented in Gibraltar via the Banking (Capital Adequacy of Credit Institutions) Regulations 2007 and Financial Services (Capital Adequacy of Investment Firms) Regulations 2007.

[2] Implemented in Gibraltar via the Financial Services (Markets in Financial Instruments) Act 2006 and the Financial Services (Markets in Financial Instruments) Regulations 2007.

aspects of the Act and underlying regulations which firms/auditors should be particularly aware of in this respect.

9. As part of their audit programme, auditors will need to review, and report on, a firm's compliance and adherence to the following:

   9.1. Section 13(7) and 13(8)[3] of the Financial Services (Markets in Financial Instruments) Act, and

   9.2. Regulations 16 to 19[4] of the Financial Services (Markets in Financial Instruments) Regulations.

   In relation to a firm's adherence with Regulations 16(1)(a) to (c), due regard should be given to the requirements that are set out in Part 2 [Accounting Records] of the Financial Services (Accounting & Financial) Regulations 1991.

   In relation to a firm's adherence with Regulation 16(1)(f), due regard should be given to the requirements that are set out in Part 5 [Customer Money] of the Financial Services (Accounting & Financial) Regulations 1991.

CRD

Reporting Requirements (general information)

10. Firms are required to meet the financial resources specified in the Financial Services (Capital Adequacy of Credit Institutions) Regulations and the Financial Services (Capital Adequacy of Investment Firms) Regulations, and as the case may be are required to submit quarterly/monthly returns, under these regulations.

11. On an annual basis, audited financial statements are also required.

    In addition to the above reports, the Commission may require a firm, if so notified in writing, to provide;

    a) information supplementary to these reports or an annual questionnaire in the form prescribed for the time being by the Commission;
    b) any other information, including information concerning a connected or affiliated person, which in the opinion of the Commission is relevant to a firm's financial position;
    c) copies of any audited financial statements, including the financial statements of any connected company, that a company is required to prepare by law;
    d) at the request of the Commission, financial statements as at a specified date, which must be produced at any reasonable time and place specified by the Commission;
    e) answers to any questionnaire relating to the firm's finances or to its relevant business which relate to a period specified by the Commission;
    f) in the case of a partnership or other unincorporated association, full details of the personal assets and liabilities of each partner or member of the association.

    A firm is also required to send the Commission, within 10 business days of receipt, a copy of any report issued by its auditor concerning its internal control and management information. If the report contains a recommendation to remedy any weaknesses, the firm is also required to submit a statement setting out in detail how

[3] See Annex 1 to this Guidance Note.

[4] See Annex 2 to this Guidance Note.

the recommendations are being implemented or, if they have not been implemented, the reasons for the decision not to do so.

Additional Statement to be made by Auditors of Firms to which only the CRD Applies

12. The auditor must provide an opinion as to whether proper accounting records have been kept in accordance with Part 2 of the Financial Services (Accounting & Financial) Regulations 1991, as applicable.

Other General Requirements

Holding companies

13. If any of a firm's qualifying holders is a company or if it is a holding company, together with its annual financial statements, a copy of the following should be also submitted to the Commission:

    13.1. audited consolidated annual financial statements for the group;

    13.2. an organisation chart which traces the route to the ultimate qualifying holder or holders; and

    13.3. reports for the purposes of consolidated supervision if so requested in writing by the Commission.

Accounting principles

14. Firms have a responsibility for preparing financial statements that give a true and fair view in accordance with generally accepted accounting principles. Firms to which MIFID and/or CRD apply are required to prepare financial statements under either:

    - United Kingdom Accounting Standards;
    - United Kingdom Accounting Standards as adopted by the Gibraltar Society of Chartered and Certified Accountancy Bodies; or
    - International Financial Reporting Standards as adopted for use in the EU.

15. The disclosures, format and content of the financial statements will be determined by the Accounting Standards followed and supplemented or modified as required by other applicable legislation in Gibraltar [such as the Banking (Accounts Directive) Regulations 1997 and the Companies Act and Companies (Accounts) Act 1999].

Auditors review of a firm's year end supervisory return

16. When conducting the annual review, auditors should ensure that the return submitted by the firm at its financial year end is also audited. If the financial year end does not correspond with a quarterly reporting date (i.e. December, March, June, September) the firm is required to submit a further return for its year end. The Commission will expect that as part of the audit, auditors have satisfied themselves that adequate accounting procedures and controls have been put in place by the firm in respect of the preparation of the return and that the financial information at the year end has been included properly in the return in accordance with the various requirements.

17. Where the return submitted by a firm at its financial year end differs to the audited financial statements, as a result of timing differences or the inclusion of estimates as a result of the non-availability of certain confirmations at the time, a revised return, reflecting the accurate amounts, should be submitted to the Commission along with the audited financial statements. A reconciliation detailing the differences and

changes should also be submitted. Where these differences are material, further details should be provided.

Pillar 3 market disclosures

18. In accordance with paragraphs 21 to 23 of the Guidance Note on Pillar 3, firms may make their Pillar 3 disclosures via their audited financial statements. In such cases it is expected that such disclosures will be subject to statutory and audit procedures. Information disclosed within the same document will therefore also be subject to review by the auditors.

19. There will inevitably be some overlap between the relevant Pillar 3 disclosures and the various accounting disclosures required by the accounting standards. It should be noted, however, that in general, the focus of Pillar 3 is different from disclosures required by other sources, because these are underpinned by prudential reporting rather than statutory reporting.

20. The Commission does not intend to publish a list of accounting disclosures that could be considered to be equivalent to Pillar 3 disclosures. The reason for this is twofold – firstly, as indicated above, accounting disclosures have a financial basis whereas Pillar 3 disclosures have a prudential basis, and secondly, what may be deemed to be equivalent and appropriate disclosures for one firm might not be deemed equivalent or appropriate for another firm.

Operational Risk

21. Where firms have adopted the standardised approach to Operational Risk, it should be noted that the mapping process to business lines must be subject to an independent review, as specified in paragraph 4.9.7 of the Guidance Note on Operational Risk. The independent reviewer will therefore need to refer to said Guidance Note, and particularly the principles of business line mapping set out in paragraphs 4.8 and 4.9 contained therein.

22. Since it is the expectation that the majority of firms adopting the standardised approach to Operational Risk, and to which this particular independent review requirement will apply, will retain the services of their auditors/accountants to complete this independent review, the results of such a review may be included as a separate report appended to the audited financial statements, as and when carried out.

Appendix A – firms to which MiFID & CRD apply

Format, wording and content of audit report for firms to which both MiFID and the CRD apply.

Independent Auditors' report to the Financial Services Commission ('FSC') pursuant to Regulation 20 of the Financial Services (Market in Financial Instruments) Regulations 2007 and the Guidance Note on Audit Requirements, & Other Obligations & Disclosures, in respect of ABC Limited, for the year/period ended (date)

We report in respect of ABC Limited ('the firm'), on -

- the attached annual financial statements;
- the Credit Institutions / Investment Firm [*delete as appropriate*] Supervisory Return;
- the attached reconciliation between the balance sheet in the annual financial statement and the Credit Institutions / Investment Firm [*delete as appropriate*] Supervisory Return;

  and on the further matters set out below.

Our report has been prepared in accordance with Regulation 20 of the Financial Services (Market in Financial Instruments) Regulations 2007 and the Guidance Note on Audit Requirements, & Other Obligations & Disclosures, and is addressed to the FSC in its capacity as a regulator. This report, including the opinions, has been prepared for and only for the FSC in its capacity as a regulator and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective Directors Responsibility

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Generally Accepted Accounting Practice / International Financial Reporting Standards as adopted for use in the European Union [*delete as appropriate*]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for ensuring that the company complies with all aspects of Gibraltar legislation.

Basis of opinion

We have audited the annual financial statements in accordance with International Standards on Auditing. The basis of our audit opinion with respect to the annual financial statements is set out within those annual financial statements.

We have carried out such other procedures as we considered necessary for the purposes of this report. We have obtained all the information and explanations which we believe are necessary for the purposes of our report to the FSC.

Financial statements

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion:

The annual financial statements give a true and fair view in accordance with Gibraltar Generally Accepted Accounting Practice / IFRSs as adopted by the EU / UK Accounting Practice [*delete as appropriate*] of the firm's state of affairs as at [year end date] and of its profit / loss [*delete as appropriate*] for the year then ended [and have been properly prepared in accordance with the Banking (Accounts Directive) Regulations 1997] [*delete if not applicable*].

Supervisory Return

[Except for:] [auditor to complete if providing a qualified opinion]

In our opinion:

- ***The revised Credit Institutions / Investment Firm [delete as appropriate] Supervisory Return submitted to the FSC by the auditors has been prepared in accordance with the requirements set out in the Financial Services (Capital Adequacy of Credit Institutions) Regulations and the Financial Services (Capital Adequacy of Investment Firms) Regulations.***

- ***A reconciliation the Credit Institutions / Investment Firm [delete as appropriate] Supervisory Return submitted, as at its year end, with its annual financial statements, has been properly prepared and has been included.***

Accounting records

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion the firm has kept proper accounting records in accordance with Regulation 16 of the Financial Services (Markets in Financial Instruments) Regulations.

Client financial instruments and funds

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion:

- The firm has maintained systems adequate to enable it to comply with the requirements of Regulations 16, 17, 18 and 19 [*delete those not applicable*] of the Financial Services (Markets in Financial Instruments) Regulations 2007.

- The firm was in compliance with Regulations 16, 17, 18 and 19 [*delete those not applicable*] of the Financial Services (Markets in Financial Instruments) Regulations 2007 as at the date at which the report has been made.

And / Or [*as applicable*]

The scope of the firm's authorisation under the Financial Services (Markets in Financial Instruments) Act does not allow it to hold [client financial instruments] [or] [client funds] [*delete as appropriate*].

The directors have stated that the firm did not hold [client financial instruments] [or] [client funds] [*delete as appropriate*] during the year. Based on review procedures performed, nothing has come to our attention that causes us to believe that the firm held [client financial instruments] [or] [client funds] [*delete as appropriate*] during the year.

[Registered Auditors] [Date]

[Address]

Appendix B – firms to which only CRD applies

Format, wording and content of audit report for firms to which only the CRD applies8.

Independent Auditors' report to the Financial Services Commission ('FSC') pursuant to the Guidance Note on Audit Requirements, & Other Obligations & Disclosures, in respect of ABC Limited, for the year/period ended (date)

We report in respect of ABC Limited ('the firm'), on -

- the attached annual financial statements;
- the Credit Institutions Supervisory Return;
- the attached reconciliation between the balance sheet in the annual financial statement and the Credit Institutions Supervisory Return;

and on the further matters set out below.

Our report has been prepared in accordance with the Guidance Note on Audit Requirements, & Other Obligations & Disclosures, and is addressed to the FSC in its capacity as a regulator. This report, including the opinions, has been prepared for and only for the FSC in its capacity as a regulator and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective Directors Responsibility

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Generally Accepted Accounting Practice / International Financial Reporting Standards as adopted for use in the European Union [*delete as appropriate*]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for ensuring that the company complies with all aspects of Gibraltar legislation.

Basis of opinion

We have audited the annual financial statements in accordance with International Standards on Auditing. The basis of our audit opinion with respect to the annual financial statements is set out within those annual financial statements.

We have carried out such other procedures as we considered necessary for the purposes of this report. We have obtained all the information and explanations which we believe are necessary for the purposes of our report to the FSC.

Financial statements

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion:

The annual financial statements give a true and fair view in accordance with Gibraltar Generally Accepted Accounting Practice / IFRSs as adopted by the EU [*delete as appropriate*] of the firm's state of affairs as at [year end date] and of its profit / loss [*delete as appropriate*] for the year then ended and have been properly prepared in accordance with the Banking (Accounts Directive) Regulations 1997.

Supervisory Return

[Except for:] [auditor to complete if providing a qualified opinion]

In our opinion:

- ***The revised Credit Institutions Supervisory Return submitted to the FSC by the auditors has been prepared in accordance with the requirements set out in the Financial Services (Capital Adequacy of Credit Institutions) Regulations and the Financial Services (Capital Adequacy of Investment Firms) Regulations.***

- ***A reconciliation the Credit Institutions Supervisory Return submitted, as at its year end, with its annual financial statements, has been properly prepared and has been included.***

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion:

- The Credit Institutions Supervisory Return submitted to the FSC has been prepared in accordance with the requirements set out in the Financial Services (Capital Adequacy of Credit Institutions) Regulations and the Financial Services (Capital Adequacy of Investment Firms) Regulations.

- Where the firm is required to reconcile the Credit Institutions Supervisory Return submitted, as at its year end, with its annual financial statements, the reconciliation has been properly prepared and a revised return has been included.

Accounting records

[Except for:] [*auditor to complete if providing a qualified opinion*]

In our opinion the firm has kept proper accounting records in accordance with Part 2 of the Financial Services (Accounting & Financial) Regulations 1991, as applicable.

[Registered Auditors] [Date]

[Address]

Annex 1 - Extract from the Financial Services (Markets in Financial Instruments) Act 2006

Sections 13(7) & 13(8)

Organisational Requirements

13 (7) Investment firms shall, when holding financial instruments belonging to clients, make adequate arrangements so as to safeguard clients' ownership rights, especially in the event of the investment firm's insolvency, and to prevent the use of a client's instruments on own account except with the client's express consent.

13 (8) Investment firms shall, when holding funds belonging to clients, make adequate arrangements to safeguard the clients' rights and, except in the case of credit institutions, prevent the use of client funds for its own account.

Annex 2 - Extract from the Financial Services (Markets in Financial Instruments) Regulations 2007

Regulations 16 to 20

Safeguarding of client financial instruments and funds.

16.(1) For the purposes of safeguarding clients' rights in relation to financial instruments and funds belonging to them, investment firms shall comply with the following requirements–

(a) they must keep such records and accounts as are necessary to enable them at any time and without delay to distinguish assets held for one client from assets held for any other client, and from their own assets;

(b) they must maintain their records and accounts in a way that ensures their accuracy, and in particular their correspondence to the financial instruments and funds held for clients;

(c) they must conduct, on a regular basis, reconciliations between their internal accounts and records and those of any third parties by whom those assets are held;

(d) they must take the necessary steps to ensure that any client financial instruments deposited with a third party, in accordance with regulation 17, are identifiable separately from the financial instruments belonging to the investment firm and from financial instruments belonging to that third party, by means of differently titled accounts on the books of the third party or other equivalent measures that achieve the same level of protection;

(e) they must take the necessary steps to ensure that client funds deposited, in accordance with regulation 18 in a central bank, a credit institution or a bank authorised in a third country or a qualifying money market fund are held in an account or accounts identified separately from any accounts used to hold funds belonging to the investment firm;

(f) they must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client assets, or of rights in connection with those assets, as a result of misuse of the assets, fraud, poor administration, inadequate recordkeeping or negligence.

(2) If, for reasons of the applicable law, including in particular the law relating to property or insolvency, the arrangements made by investment firms in compliance with sub-regulation (1) to safeguard clients' rights are not sufficient to satisfy the requirements of the Act, the competent authority shall prescribe the measures that investment firms must take in order to comply with those obligations.

(3) If the applicable law of the jurisdiction in which the client funds or financial instruments are held prevents investment firms from complying with paragraphs (d) or (e) of sub-regulation (1), the competent authority shall prescribe requirements which have an equivalent effect in terms of safeguarding clients' rights.

Depositing client financial instruments.

17.(1) Investment firms–

(a) may deposit financial instruments held by them on behalf of their clients into an account or accounts opened with a third party provided that it exercises all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and safekeeping of those financial instruments; and

(b) in so doing, shall in particular take into account the expertise and market reputation of the third party as well as any legal requirements or market practices

related to the holding of those financial instruments that could adversely affect clients' rights.

(2) Where the safekeeping of financial instruments for the account of another person is subject to specific regulation and supervision in a jurisdiction where an investment firm proposes to deposit client financial instruments with a third party, the investment firm shall not deposit those financial instruments in that jurisdiction with a third party which is not subject to such regulation and supervision.

(3) Investment firms shall not deposit financial instruments held on behalf of clients with a third party in a third country that does not regulate the holding and safekeeping of financial instruments for the account of another person unless one of the following conditions is met–

(a) the nature of the financial instruments or of the investment services connected with those instruments requires them to be deposited with a third party in that third country; or

(b) where the financial instruments are held on behalf of a professional client, that client requests the firm in writing to deposit them with a third party in that third country.

Depositing client funds.

18.(1) Investment firms, promptly on receiving any client funds, shall place those funds into one or more accounts opened with any of the following–

(a) a central bank;

(b) a credit institution authorised in accordance with the Financial Services (Banking) Act or in another Member State in accordance with Directive 2000/12/EC;

(c) a bank authorised in a third country;

(d) a qualifying money market fund:

Provided that paragraph (a) shall not apply to a credit institution authorised under the provisions of–

(i) the Financial Services (Banking) Act in Gibraltar; or

(ii) legislation to substantially similar effect in other Member States, in relation to deposits within the meaning of that Act held by that institution.

(2) For the purposes of paragraph (d) of sub-regulation (1), and of regulation 16(1)(e), a "qualifying money market fund" means a collective investment undertaking–

(a) authorised under the Financial Services (Collective Investment Schemes) Act 2005; or

(b) which is subject to supervision and, if applicable, authorised by an authority under the national law of a Member State, and which satisfies the following conditions–

(i) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;

(ii) it must, with a view to achieving that primary investment objective, invest exclusively in high quality money market instruments with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of 60 days. It may also achieve this objective by investing on an ancillary basis in deposits with credit institutions;

(iii) it must provide liquidity through same day or next day settlement.

For the purposes of paragraph (b)(ii)–

(i) a money market instrument shall be considered to be of high quality if it has been awarded the highest available credit rating by each competent rating agency which has rated that instrument. An instrument that is not rated by any competent rating agency shall not be considered to be of high quality; and
(ii) a rating agency shall be considered to be competent if it issues credit ratings in respect of money market funds regularly and on a professional basis and is regarded by the competent authority as an eligible External Credit Assessment Institution within the meaning of article 81 of Directive 2006/48/EC.

(3) Investment firms–
(a) not depositing client funds with a central bank, shall exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution, bank or money market fund where the funds are placed and the arrangements for the holding of those funds;
(b) shall take into account the expertise and market reputation of such institutions or money market funds with a view to ensuring the protection of clients' rights, as well as any legal or regulatory requirements or market practices related to the holding of client funds that could adversely affect clients' rights; and
(c) shall ensure that clients have the right to oppose the placement of their funds in a qualifying money market fund.

Use of client financial instruments.

19.(1) Investment firms shall not enter into arrangements for securities financing transactions in respect of financial instruments held by them on behalf of a client, or otherwise use such financial instruments for their own account or the account of another client of the firm, unless the following conditions are met–
(a) the client must have given his prior express consent to the use of the instruments on specified terms, as evidenced, in the case of a retail client, by his signature or equivalent alternative mechanism; and
(b) the use of that client's financial instruments is restricted to the specified terms to which the client consents.

(2) Investment firms shall not enter into arrangements for securities financing transactions in respect of financial instruments which are held on behalf of a client in an omnibus account maintained by a third party, or otherwise use financial instruments held in such an account for their own account or for the account of another client unless, in addition to the conditions set out in sub-regulation (1), at least one of the following conditions is met–
(a) each client whose financial instruments are held together in an omnibus account must have given prior express consent in accordance with paragraph (a) of sub-regulation (1);
(b) the investment firm must have in place systems and controls which ensure that only financial instruments belonging to clients who have given prior express consent in accordance with paragraph (a) of sub-regulation (1) are so used; and
(c) the investment firm maintains records which include details of the client on whose instructions the use of the financial instruments has been effected, as well as the number of financial instruments used belonging to each client who has given his consent, so as to enable the correct allocation of any loss.

Reports by external auditors.

20. Investment firms shall ensure that their external auditors report at least annually to the competent authority on the adequacy of the firm's arrangements under section 13(7) and (8) of the Act and these Regulations.