



SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT
Rule and Statement of Guidance on Internal Controls for Regulated Entities

No.	Section	Comments	Authority's Response	Consequent Amendments to the Proposed Measure
GENERAL COMMENTS				
1.		Although this Rule and Statement of Guidance is intended for all regulated entities, does CIMA intend to update the current sector specific SOG's or retire them?	The current sector specific Statement of Guidance (SOG's) will be retired. When applicable, updates or additions of sector specific guidance will be included in the Appendices of this Rule and Statement of Guidance.	None
2.		Language around "size, nature and complexity" have been refined for further clarity throughout the measure.		Changes have been made to Sections 2.2, 4.4, 8.9, 10.6 and 12.3.
SECTION-SPECIFIC COMMENTS				
3.	4.2 The Authority recognises that regulated entities may outsource some business functions, delegating their duties for day-to-day management to service providers. A regulated entity may rely on the service providers' system of internal control over the outsourced activities provided that the Governing Body is satisfied and can demonstrate to the Authority that such system	Service providers are subject to their requirements, so we would expect "aligned" to be more appropriate than "meets". It is worth noting that while investment funds typically engage investment managers for management of the investment fund's assets, responsibility for governance of the investment fund itself is retained by its Governing Body. <u>Suggested Amendment</u>	The Authority acknowledges the view of the use of the word "aligned" vs. "meets" as it relates to the use of service providers in meeting the requirements under this Rule and Statement of Guidance. However, the Authority will be retaining the word "meets" and will apply proportionality as appropriate, when evaluating if the requirements of the Rules and Statement of Guidance are met through the use of service providers.	None

	of internal control meets the requirements of this Rule and Statement of Guidance ¹ .	The Authority recognises that regulated entities may outsource some business functions, delegating their duties for day-to-day management to service providers. A regulated entity may rely on the service providers' system of internal control over the outsourced activities provided that the Governing Body is satisfied and can demonstrate to the Authority that such system of internal control meets is aligned with the requirements of this Rule and Statement of Guidance ¹ .		
4.	4.2 (Footnote 1) Regulated entities utilising outsourcing should also refer to regulatory measures issued by the Authority on outsourcing.	The proposed addition is to acknowledge that regulatory measures on outsourcing are not uniformly applicable to all regulated entities. <u>Suggested Amendment</u> Regulated entities outsourcing should also refer to regulatory measures issued by the Authority on outsourcing, <u>as applicable</u> .	Agreed. The inclusion of "as applicable" will be adopted for increased clarity.	4.2 (Footnote 1) will read as follows: Regulated entities utilising outsourcing should also refer to regulatory measures issued by the Authority on outsourcing, as applicable .
5.	4.3 Where a regulated entity is part of a group, it may rely on the group's system of internal control provided that the regulated entity's Governing Body is satisfied and can demonstrate to the	The concept of 'group' appears to refer to a group of companies in a parent/subsidiary relationship, as would be common in many regulated sectors. This is seldom found in the investment funds context, however, because the equivalent of 'group-level'	The Authority will apply proportionality in its assessment of the regulated entity and its service providers and finds that the proposed amendment is addressed under section 4.2 relating to the use of service providers. This would include the	None

	<p>Authority that such system of internal control meets the requirements of this Rule and Statement of Guidance.</p>	<p>policies are maintained by an investment manager, or administrator, or other service provider to the fund (rather than a parent). The Authority has long recognised this arrangement in other parts of its rules, and this clarification is suggested to avoid inconsistency with this longstanding position. The remainder of 4.3 (correctly) makes clear that responsibility remains with the regulated entity itself.</p> <p><u>Suggested Amendment</u> Where a regulated entity is part of a group, it may rely on the group’s system of internal control and regulated mutual funds and private funds may rely on service providers such as their investment manager in respect of such matters, provided that the regulated entity's Governing Body is satisfied and can demonstrate to the Authority that such system of internal control meets the requirements of this Rule and Statement of Guidance.</p>	<p>investment manager, administrator, or other service providers to the fund.</p>	
<p>6.</p>	<p>4.4 In assessing whether the internal control system implemented or relied upon by a regulated entity meets the requirements of this Rule and Statement of Guidance, appropriate consideration should be</p>	<p>We recognise that a universally applicable Proposed Rule and SOG on Internal Controls brings benefits in terms of ease of reference and updating. However, as investment funds do not have staff and are purely investment vehicles, rather than operating businesses, parts of</p>	<p>The Authority finds that the proposed amendment is addressed within section 2.2 which notes that internal control needs vary commensurate with the size, complexity, structure, nature of business and risk profile of the regulated entity and this will be considered in assessing</p>	<p>Comments around “size, nature and complexity” have been refined throughout the measure for further clarity. Consequently, section 4.4. now reads: “In assessing whether the internal control system implemented or relied upon by a regulated entity meets the requirements of this Rule and Statement of</p>

	<p>given to the size, complexity, structure, nature of business, and risk profile of the regulated entity.</p>	<p>a "one size fits all" Proposed Rule and SOG on Internal Controls are inherently not applicable. We also note that the international standards referenced by the Authority in support of the Proposed Rule and SOG on Internal Controls relate to staffed financial institutions and not to investment funds. As the vast majority of entities regulated by the Authority are investment funds, it would be helpful to include an express acknowledgment that funds are unstaffed and should comply in a manner which is appropriate and proportionate. This will avoid any impression inadvertently being given to international readers that there is a lack of understanding of investment funds.</p> <p><u>Suggested Amendment</u> In assessing whether the internal control system implemented or relied upon by a regulated entity meets the requirements of this Rule and Statement of Guidance, appropriate consideration should be given to the structure, size, nature, complexity, and risk profile of the regulated entity, <u>including the extent to which it has employees. Investment funds should comply to the extent appropriate and applicable, recognising that investment funds</u></p>	<p>the effectiveness of controls implemented. As such, and stated in section 4.2 – 4.4, the Authority will apply proportionality in reviewing the structure of the entity, and this would include consideration of the use of service providers and/or staff.</p>	<p>Guidance, appropriate consideration should be given to the size, complexity, structure, nature of business, and risk profile of the regulated entity."</p>
--	--	---	---	---

		<u>are investment vehicles and do not have staff.</u>		
7.	Part I, 9 – Risk Identification and Assessment, 9.3. Regulated entities must identify and continually assess all material risks to the achievement of their objectives and analyse the risks as a basis for determining how they should be managed. This assessment must cover all material risks (including the risk of fraud) facing the regulated entity on a consolidated basis.	How would CIMA define “Material”? How does CIMA define continuously, is this meant to be periodically as determined by the Licensee or is this by having controls in place?	A definition for “material risks” will be added to the existing list of definitions under Section 5 and be defined as those risks that could have a significant impact on the achievement of a regulated entity’s objectives. The Authority agrees to re-word paragraph 9.3 to address any ambiguity in the use of the word “continually” as it relates to periodicity.	Paragraph 5.5 will be added to “Definitions” in Section 5 and read as follows: 5.5 “Material risks” are those risks that could have a significant impact on the achievement of a regulated entity’s objectives. Paragraph 9.3 will be re-worded to read as follows: As appropriate, regulated entities must identify and assess all material risks to the achievement of their objectives and analyse the risks as a basis for determining how they should be managed. This assessment must cover all material risks (including the risk of fraud) facing the regulated entity on a consolidated basis.
8.	Part I, 11 – Information and Communication, 11.1. Regulated entities must obtain or generate, and then use relevant and quality information from both internal and external sources to support effective functioning of internal controls.	It is not clear the intent of this section. Is the requirement related to Information Security or Data Governance? It feels as though the requirement could be related to communication protocols but it would seem odd that CIMA would pronounce regulation at this level, specifically with regard to internal communications. Please provide clarity.	This section speaks to the quality of information used to implement and report on internal controls. It is not the Authority’s intent to specify how this should be done.	None

<p>9.</p>	<p>2.2 Part II, B – Securities Investment Business, Section 2 The following definitions are provided for the purpose of this section:</p> <p>a. “Client” refers to a person with or for whom securities investment business is transacted.</p>	<p>The amendment is required as a transaction counterparty of a regulated person is not a client of regulated person. For example, a regulated person may deal in securities as agent for its client. The counterparty on the other side of the deal with whom the regulated person transacts to fill the client's order is not the regulated person's client.</p> <p><u>Suggested Amendment</u> “Client” refers to a person with or for whom securities investment business is transacted.</p>	<p>The Authority is of the view the definition of “Client” aligns with the existing definition as stated in the Securities Investment Business Act (2020 Revision).</p>	<p>Reference to the definition of “Client” as defined in the Securities Investment Business Act has been included for clarity.</p>
-----------	---	--	---	--