

O.G. Annex III(I)
No. 5363, 25.9.2020
Number 441

THE SALE OF CREDIT FACILITIES AND OTHER RELATED MATTERS LAWS OF 2015 TO 2018
Directive under section 17(2)

169(I) of 2015 The Central Bank issues this Directive by virtue of the powers vested on it by subsection (2) of section
86(I) of 2018. 17 of the Sale of Credit Facilities and Other Related Matters Law of 2015 to 2018

CONTENTS

PART I - TITLE, PURPOSE, INTERPRETATION AND SCOPE OF APPLICATION

1. Short title
2. Purpose of the Directive
3. Interpretation
4. Scope of application

PART II - PROPORTIONALITY AND GENERAL REQUIREMENTS

5. Proportionality
6. General Requirements

PART III - MANAGEMENT BODY

7. Role of the management body
8. Responsibilities of the management body
9. Size and composition of the management body
10. Meetings of the management body
11. Access of the management body to resources and information
12. Assessment of the management body
13. Establishment of committees of the management body
14. Role of the risk committee
15. Role of the audit committee

PART IV- GOVERNANCE FRAMEWORK

16. Organisational framework
17. Management of borrowers' complaints
18. Reporting of breaches by staff
19. Internal control framework
20. Implementation of the internal control system
21. Internal control functions
22. Heads of internal control functions
23. Risk management function
24. Compliance function
25. Information security function
26. Internal audit function

PART V- OUTSOURCING

27. Provision of information to the Central Bank
28. Conditions for outsourcing

PART VI - REPORTING TO THE CENTRAL BANK

29. Reporting to the Central Bank

PART V II - OTHER PROVISIONS

30. Transparency
31. Entry into force

PART I
TITLE, PURPOSE, INTERPRETATION AND SCOPE OF APPLICATION

Short title.	1.- This Directive shall be cited as the Governance and Management Arrangements of Credit Acquiring Companies Directive of 2020.
Purpose of the Directive.	2.- The purpose of this Directive is the specification of the requirements for the development, implementation and effective oversight of internal governance mechanisms to be implemented by credit acquiring companies, in order to ensure their effective and prudent management and the fair treatment of borrowers.
Interpretation.	3.- For the purposes of this Directive, the definitions in section 2 of the Law shall apply, unless the context requires otherwise, and in addition, the following definitions shall apply, unless the context requires otherwise- “independent member of the management body” or “independent member” means the member of the management body who satisfies all the criteria set out in Annex I of the Assessment of Suitability of Members of the Management Body and Key Function Holders of Credit Acquiring Companies Directive of 2020; “risk appetite” means the aggregate level and types of risks that credit acquiring companies are willing to assume, to achieve their strategic objectives; “chief executive officer” means the person who is responsible for managing and coordinating the overall business activities of the credit acquiring company; “heads of internal control functions” means the persons at the highest hierarchical level in charge for effectively managing the day-to-day operation of the independent risk management, internal audit, compliance and information security functions; “executive member of the management body” means a member of the management body of a credit acquiring company who is responsible to effectively manage the activities through an employment agreement concluded with the credit acquiring company; “non-executive member of the management body” means a member of the management body of a credit acquiring company who is responsible for overseeing and monitoring management decision-making without executive duties within the credit acquiring company; “outsourcing” means an agreement of any kind between a credit acquiring company and a service provider with which the service provider carries out a process, provides a service or carries out an activity which would have otherwise been carried out, provided or exercised by the credit acquiring company itself; “Law” means the Sale of Credit Facilities and Other Related Matters Law of 2015 to 2018; “service provider” means a third party undertaking an outsourced process, service or activity, or part thereof, under an outsourcing agreement; “staff” means all the employees of a credit acquiring company including members of the management body.
Scope of application.	4.- This Directive shall be applied by credit acquiring companies.

PART II
PROPORTIONALITY AND GENERAL REQUIREMENTS

Proportionality.	5.- (1) When developing and implementing the internal governance arrangements of this Directive, credit acquiring companies shall take into account their size and internal organisation, as well as the size, nature and complexity of their activities. (2) Taking into account the principle of proportionality, the Central Bank may exempt a credit acquiring company from specific requirements of this Directive, following a request by the credit acquiring company. (3) The request referred to in subparagraph (2) shall be submitted in writing to the Central Bank and shall explain the reasons why the credit acquiring company is requesting an exemption from the provisions of this Directive. The Central Bank shall approve the requested exemptions if and so long as it is satisfied that any application of the provisions for which the credit acquiring company is requesting an exemption would be disproportionate and/or incompatible with the size, nature and complexity of the credit acquiring company's operations. (4) The Central Bank may, at any time considered appropriate and upon providing sufficient justifications, revoke any of its decisions for exemption.
------------------	---

General Requirements.	<p>6.- Each credit acquiring company must have a sound governance framework which must be in line with and promote the principles of sound and effective management of the credit acquiring company and include at least the following:</p> <ul style="list-style-type: none"> (a) a clear organisational structure with well-defined, transparent and consistent lines of responsibility, (b) effective procedures for identifying, managing, monitoring and reporting the risks to which the credit acquiring company is or may be exposed, (c) adequate internal control mechanisms, (d) effective management and restructuring of non-performing credit facilities, (e) fair treatment of borrowers and protection of their personal data, (f) appropriate procedures for monitoring and handling complaints, and (g) appropriate administrative and accounting procedures.
-----------------------	--

PART III
MANAGEMENT BODY

Role of the management body.	<p>7.- The management body shall have the final and general responsibility for the internal governance of the credit acquiring company and shall define, oversee and shall be accountable for the implementation of governance arrangements that ensure effective and prudent management, including the regulatory compliance and effective management of risks undertaken by the credit acquiring company.</p>
------------------------------	---

Responsibilities of the management body.	<p>8.- (1) The duties of the management body must be clearly defined. The description of the responsibilities and duties of the management body are recorded in a relevant document which is approved by the management body.</p>
--	---

(2) All members of the management body must be fully aware of the structure and responsibilities of the management body, as well as the division of tasks between different functions of the management body and its committees.

(3) The responsibilities of the management body should include setting, approving and overseeing the implementation of the following:

(a) the overall business strategy and the key policies of the credit acquiring company which must be in line with the applicable legal and regulatory framework, taking into account the long-term financial interests and solvency of the credit acquiring company;

(b) the overall risk strategy, including the risk appetite and risk management framework of the credit acquiring company, as well as relevant measures to ensure that the management body devotes sufficient time to risk issues;

(c) an adequate and effective internal governance framework and internal control system, that ensures a clear organisational structure and the well-functioning independent risk management, compliance, internal audit and information security functions of the credit acquiring company which must have sufficient authority, stature and resources to carry out their functions;

(d) a process for selecting and assessing the suitability of members of the management body and key function holders;

(e) the arrangements aimed at ensuring the internal functioning of each committee of the management body, when established, detailing the role, composition and tasks of each committee, the appropriate information flow, including the documentation of recommendations and conclusions, and reporting lines between each committee and the management body, the Central Bank and other parties in case important functions have been assigned to them,

(f) a corporate culture and values which foster responsible and ethical behaviour, including a code of conduct or similar instrument;

(g) a conflict of interest policy both at the level of the credit acquiring company as well as for the staff and the members of the management body; and

(h) arrangements aimed at ensuring the integrity of the accounting and financial reporting systems, including financial and operational controls, compliance with the Law and with the relevant financial standards.

(4) The management body must oversee the process of disclosure and communications with external stakeholders and the reporting to the Central Bank.

(5) All members of the management body shall be kept informed about the overall activity, financial situation and risks of the credit acquiring company, taking into account the economic environment, as well as for decisions taken by each function or business unit that have a major impact on the business activities of the credit acquiring company.

(6) The management body shall monitor, periodically review and address any weaknesses identified in the implementation of the credit acquiring company's processes, strategies and policies, and shall periodically assess the effectiveness of the governance arrangements of the credit acquiring company in accordance with the provisions of this Directive.

Size and composition of the management body.

9.- (1) The size and composition of the management body of the credit acquiring company is determined taking into account the size and complexity of the credit acquiring company as well as the nature of its activities, ensuring at least that:

- (a) the executive members of the management body must be at least two (2), one of which must be the executive officer,
- (b) the non-executive members of the management body must be at least five (5) and must in their majority be independent,
- (c) the chairman of the management body must be a non-executive independent member,
- (d) the members of the management body must possess adequate collective knowledge, skills and experience to be able to understand the activities and obligations of the credit acquiring company arising from the legal and regulatory framework and must also have independence of mind.

(2) The CBC may, following a substantiated decision, allow a credit acquiring company to appoint at least three (3) non-executive members, instead of five (5). In its decision, the CBC must take into account at least the size of the portfolio managed by the company.

Meetings of the management body.

10.- The management body:

- (a) holds regular meetings to carry out their responsibilities adequately and effectively;
- (b) the members of the management body must attend the regular or ad hoc meetings either in person or via teleconferencing, as long as this is permitted by the articles of association of the credit acquiring company; in any event, the participation of the members via teleconferencing must not be carried out in an abusive manner;
- (c) a regular meeting of the management body shall be held at least twice a year in the physical presence of all members;
- (d) proxy voting may be permitted for absentees, provided that it is restricted to one (1) proxy voting per year for each member that participates in the meeting. A proxy holder can only be an existing member of the management body:

It shall be understood that members who vote via proxy are held accountable for the vote of their proxy holder;

- (e) no person that has not been approved by the Central Bank to act as a member of the management body of a credit acquiring company shall be present in a meeting, unless formally invited to attend a discussion of a specific item(s) on the agenda on which he/she was requested to express an opinion; any such person should only take part in the discussion of the specific matter and leave the conference room immediately thereafter, without any participation in the decision-making process;
- (f) minutes must be recorded for each meeting and must be finalised and formally approved at the next meeting.

Management body access to resources and information.

11.- The management body and its committees shall have adequate access to all information and data necessary for the performance of their duties.

Assessment of the management body.

12.- (1) Credit acquiring companies shall have an appropriate methodology and procedure for the in-depth assessment of the performance, of the management body as a whole, each committee and each member. This assessment shall be carried out at least on an annual basis.

(2) The assessment procedure referred to in subparagraph (1) shall cover at least the following:

- (a) the performance of the management body as a whole, of its committees and individual members;
- (b) the contribution of the management body as a whole, its committees and its individual members:
 - (i) in the formulation of the business objectives, the risk appetite and the strategies of the credit acquiring company;
 - (ii) in the definition and oversight of risk management and compliance frameworks;
 - (iii) in the establishment and maintenance of strong organisational and operational arrangements and internal control mechanisms;
- (c) the composition of the management body and its committees;
- (d) the communication with management, the shareholders and the Central Bank;
- (e) the role of the chairman of the management body and of its independent members;

(f) the time devoted by non-executive members to the performance of their duties and their ability to assess information;

(g) the assessment of the suitability of each member of the management body on the basis of the applicable criteria in the Assessment of Suitability of Members of the Management Body and Key Function Holders of Credit Acquiring Companies Directive of 2020 and in particular the criteria for the independence of each independent member on the basis of the applicable criteria in the said Directive.

(3) At least every three (3) years, credit acquiring companies shall assign the examination and assessment of the composition, efficiency and effectiveness of the management body and its committees to an independent external consultant. This assessment shall be carried out by taking into account the requirements of this Directive.

The assessment mentioned above shall aim, inter alia, to inform the management body in relation to the best practices of the industry. A copy of the assessment shall be sent to the Central Bank.

Establishment of management body committees.

13.- (1) Credit acquiring companies:

(a) Establish a risk committee and an audit committee to advise and assist the management body in decision-making.

(b) May, upon the approval of the Central Bank, set up a joint risk committee and audit committee; in any event, credit acquiring companies should ensure that the members of a joint committee possess on an individual and collective level, the necessary knowledge, skills and expertise, to fully understand the tasks and responsibilities of the joint committee.

(c) May set up additional committees other than those referred to in subparagraph (a).

(2) All the committees of the management body shall be chaired by a non-executive member of the management body and the chairman of the risk committee and of the audit committee shall have the appropriate qualifications to act as chairmen of these committees.

(3) The risk and nomination committees, where such a committee has been set up, should be composed of non-executive members of the management body.

(4) The number of members of each committee of the management body must be sufficient to handle the volume and complexity of their tasks, and in each case must not be less than three (3) members.

Role of the risk committee.

14.- (1) The role of the risk committee shall include at least the following:

(a) advise and support the management body regarding the monitoring of the actual and future risk appetite and the formulation and oversight of the risk strategy and the corresponding limits that have been set;

(b) oversee the implementation of risk management strategies and assess their adequacy to the approved risk appetite and risk strategy;

(c) submit proposals to the management body for adjustments to the risk strategy resulting, inter alia, from market developments;

(d) provide recommendations to the management body on the appointment of external consultants;

(e) assess the risks associated with the restructuring of credit facilities;

(f) assess and monitor the implementation of the recommendations made by internal or external auditors.

(2) The risk committee shall maintain regular communication with the internal control functions of the credit acquiring company, and in particular the risk management function.

Role of the audit committee.

15.- (1) The role of the audit committee shall include at least the following:

(a) monitor the effectiveness of the credit acquiring company's internal quality control and risk management systems and, where appropriate, the internal audit function, with regard to the financial reporting of the credit acquiring company, without breaching the independence of external statutory audit;

(b) oversee the establishment of accounting policies by the credit acquiring company;

(c) monitor the statutory audit of the annual financial statements and in particular its performance;

(d) submit proposals to the management body concerning the procedure for the selection of external statutory auditors or audit firms, their compensation, the terms of their appointment and their dismissal;

(e) inform the management body of the outcome of the statutory audit of the annual accounts; and

(f) receive and take into account audit reports.

(2) The chairman of the audit committee must be an independent non-executive member of the management body and must have specialised knowledge and experience in the application of accounting principles and internal audit procedures.

(3) The chairman of the management body should not be a member of the audit committee.

PART IV
GOVERNANCE FRAMEWORK

Organisational framework.	<p>16.- (1) The management body of a credit acquiring company shall ensure and record a suitable and transparent organisational and operational structure.</p> <p>(2) The organisational and operational structure shall promote and assist in the effective and prudent management of the credit acquiring company.</p> <p>(3) The management body shall ensure that the internal control functions of the credit acquiring company are independent from the business lines they control, ensuring, inter alia, the segregation of duties of these functions and that they have appropriate financial and human resources, as well as powers to effectively perform their role.</p> <p>(4) The reporting lines and the allocation of responsibilities, in particular among key function holders within the credit acquiring company, must be clear, well-defined, coherent, and enforceable. This allocation should be duly documented and updated as appropriate.</p>
Management of borrowers' complaints.	<p>17.- (1) Credit acquiring companies shall establish and maintain effective and transparent procedures for the management of complaints received from borrowers and shall establish a manual which accurately documents the process and the timelines that must be followed.</p> <p>(2) Credit acquiring companies shall establish a Complaints Resolution Committee for managing borrowers' complaints. The Complaints Resolution Committee shall consist of specialised staff that is independent of the provision of credit facility services, the monitoring and management of restructuring of credit facilities, and shall handle borrowers' complaints in an impartial manner and without any conflict of interests.</p> <p>(3) Complaints shall be examined as soon as possible by the Complaints Resolution Committee and without any charge to borrowers. Credit acquiring companies shall keep a record of complaints and of the measures taken to address them, ensuring that all complainants receive a reply in writing within a period not exceeding two (2) months from the date of receipt of a fully documented complaint.</p> <p>(4) All relevant information and documents shall be made available:</p> <ul style="list-style-type: none">(i) to borrowers so that they can file complaint applications, and(ii) to the Complaints Resolution Committee so that it can adequately assess the application and reach a fair, compromising solution between the credit acquiring company and the borrower. <p>(5) Credit acquiring companies shall inform the Central Bank on an annual basis or upon the Central Bank's request on the progress of the complaint resolution process, including the number of complaints that were investigated and the corresponding decisions taken by the Complaints Resolution Committee.</p>
Reporting of breaches by staff.	<p>18.- (1) Credit acquiring companies shall put in place effective and reliable mechanisms to enable their staff to report potential or actual breaches of regulatory requirements to the Central Bank, including, inter alia, the requirements of the Law and this Directive.</p> <p>(2) Without prejudice to the possibility of reporting breaches through the mechanisms of the Central Bank, staff members must be encouraged to attempt and seek first to use the internal alert procedures of their institutions.</p>
Internal control framework.	<p>19.- (1) Credit acquiring companies shall develop and implement a sound and complete internal control framework and promote a culture that encourages compliance with the regulatory framework and with the risk management strategies and policies.</p> <p>(2) The internal control framework should cover the whole organisation, including the responsibilities and tasks of the management body, as well as the activities of all business lines, including internal control functions and outsourced activities.</p> <p>(3) The internal control framework of the credit acquiring company shall ensure:</p> <ul style="list-style-type: none">(a) an efficient and effective operation;(b) the prudent conduct of business;(c) the adequate identification, measurement and mitigation of risk;(d) the reliability of financial and non-financial information reported both internally and externally;(e) sound administrative and accounting procedures; and(f) compliance with laws, regulations, supervisory requirements and internal policies, processes, rules and decisions of the credit acquiring company.
Implementation of the internal control system.	<p>20.- (1) The management body shall be responsible for establishing an internal control system. It shall also be responsible for monitoring the adequacy and effectiveness of the processes and mechanisms of the internal control system, as well as for overseeing its operations.</p>

- (2) Credit acquiring companies shall establish, maintain and periodically update adequate written policies, mechanisms and internal control procedures, which shall be approved by the management body.
- (3) Credit acquiring companies shall have a clear, transparent and documented decision-making process and a clear allocation of responsibilities and authority within the framework of the internal control system, including business lines, internal units and internal control functions.

Internal control functions.

21.- (1) Credit acquiring companies:

- (a) shall establish a risk management function, an internal audit function, a compliance function and an information security function,
- (b) may, upon the approval of the Central Bank, combine the risk management function with the compliance function and/or with the information security function.

It is provided that the internal audit function shall not be combined with another function of the internal control system.

(2) The risk management, the compliance and information security functions shall be subject to monitoring by the internal audit function.

(3) Internal control functions shall be independent from the operational units that they monitor and control.

(4) The activities of the functions of the internal control system may be outsourced in whole or in part, taking into account the proportionality criteria. Even when the internal control operational tasks are partially or entirely outsourced, the head of the respective internal control function and the management body shall still be responsible for these activities, and for maintaining an internal control function within the credit acquiring company.

Heads of internal control functions.

22.- (1) The heads of the functions of the internal control system shall be appointed at an adequate hierarchical level that provides the head of the relevant function the appropriate authority and stature needed to fulfil his or her responsibilities.

(2) Notwithstanding the overall responsibility of the management body, heads of internal control functions should be independent of the business lines or units they control. To this end, the heads shall report directly to the management body, and their performance shall be reviewed by the management body.

Risk management function.

23.- (1) Credit acquiring companies shall appoint a person as the head of the risk management function.

(2) The risk management function shall have sufficient authority, stature and resources to be able to implement the risk policies and the risk management framework of the credit acquiring company.

(3) The risk management function shall, where necessary, have direct access to the management body and its committees, including in particular the risk committee, in order to convey any of its concerns and to warn, where appropriate, in the event of specific risk developments which affect or may affect the credit acquiring company.

(4) The staff of the risk management function shall possess sufficient knowledge, skills and experience in relation to risk management techniques and procedures, in particular in relation to the management of credit facilities and restructuring.

(5) The risk management function shall ensure the identification, assessment, measurement, monitoring, and management of all risks to which the credit acquiring company is exposed and shall inform the risk committee accordingly.

(6) The risk management function shall ensure that:

(a) all identified risks are effectively monitored by the operational units,

(b) it regularly monitors the risk profile of the credit acquiring company and scrutinises it against the strategic objectives and risk appetite of the credit acquiring company, to enable decision-making on the one hand and the review of the strategic objectives and risk appetite of the management body on the other,

(c) it analyses the market trends and identifies any new or emerging risks and risk increases arising from changing circumstances and conditions,

(d) actual risk outcomes are regularly compared against previous estimates (back testing) to assess and improve the accuracy and effectiveness of the risk management process,

(e) possible ways to mitigate risks are evaluated.

(7) The head of the risk management function shall submit a report to the management body on a quarterly basis, through the risk committee, with a copy to the chief executive, which report shall at least include an internal risk assessment of the credit acquiring company. The report shall include, as a minimum, the outcome and assumptions of the analyses carried out, the proposed risk mitigation measures as well as information on the external environment in order to identify the market conditions

and trends that may affect the current risk profile of the credit acquiring company so that they are taken into account for the formulation of a new risk profile should the credit acquiring company consider this necessary.

Compliance
function.

24.- (1) Credit acquiring companies shall appoint a person as head of the compliance function.
(2) The management body of the credit acquiring company shall oversee the implementation of a sound and comprehensive compliance policy, which shall be recorded in a relevant document and notified to all staff members.
(3) Credit acquiring companies shall establish a procedure for the regular assessment of changes in laws and regulations governing their activities.
(4) The compliance function of the credit acquiring company shall:
(a) advise the management body on measures to be taken to ensure compliance with the applicable regulatory framework and assess the impact of changes to the legislative or regulatory framework and submit proposals and recommendations to the management body for the relevant harmonisation of the compliance framework of the credit acquiring company,
(b) ensure that compliance monitoring is carried out through a structured and well-defined monitoring programme,
(c) report to the management body and communicate, as appropriate, with the risk management function on the compliance risk of the credit acquiring company and the management of this risk.
(5) The compliance function and the risk management function shall cooperate and exchange information as appropriate to perform their respective tasks. The findings of the compliance function shall be taken into account by the management body for the purpose of taking relevant decisions and shall be taken into account by the risk management function for monitoring, evaluating and measuring risks.
(6) The head of the compliance function shall submit a report to the management body on a quarterly basis through the audit committee, with a copy to the chief executive. The report shall, at least, include the following:
(i) information on the key compliance risk indicators monitored by the compliance function,
(ii) up-to-date information on the operational and regulatory framework,
(iii) significant penalties or other disciplinary measures imposed by supervisory authorities in the last quarter concerning the credit acquiring company or any member of its staff.
(7) The compliance function shall ensure the credit acquiring company's compliance with the Prevention and Combating of Money Laundering Law, as amended or replaced from time to time, as well as with the Directives and circulars of the Central Bank concerning money laundering and terrorist financing. The head of the compliance function should be appointed to the position of Compliance Officer under section 69 of the said Law.

N. 188(I)/2007
O.G. Sch. I(I),
No. 4154,
31/12/2007
58(I)/2010
80(I)/2012
192(I)/2012
101(I)/2013
184(I)/2014
18(I)/2016
13(I)/2018
158(I)/2019.

Information
security function.

25.- (1) Credit acquiring companies shall appoint a person as the head for the information security function.
(2) The information security function shall be responsible for the development and implementation of an information security framework and, as a minimum, the function must:
(a) provide advice and recommendations to the management body on the development of an information security policy, taking into account the size and complexity of the credit acquiring company's activities;
(b) provide advice and recommendations to the management body on the development and implementation of an information security program, in the form of security policies, standards, guidelines, procedures and processes, and shall ensure, inter alia, the development, recording and implementation of:
(i) information classification policies and standards designed to provide information owners with guidance on how to properly classify information held by the credit acquiring company in its systems and databases and to determine the appropriate level of protection, and procedures for the disclosure, modification, deletion or destruction of information held by the credit acquiring company;

- (ii) policies and procedures to ensure that information systems under procurement, development and maintenance comply with the credit acquiring company's information security policy;
 - (iii) the policies and procedures for the management of access rights to the information systems of the credit acquiring company;
 - (iv) security incident handling processes, identification and escalation procedures and a formal process for developing, documenting and implementing corrective action plans to avoid recurrence;
 - (v) appropriate controls in existing and new operating procedures, including the appropriate segregation of duties;
 - (vi) procedures for the protection of information of the credit acquiring company during the course and upon cessation of contracts with vendors and third parties and in relation to termination of employment, long-term leave of absence, transfer, or change of duties;
 - (vii) policies and procedures aimed at preventing unauthorised physical access to the information and data of the credit acquiring company, and ensuring that no damage is caused to them by either human error or natural causes;
- (c) ensure that the information security framework is communicated to the staff of the credit acquiring company and oversee its proper implementation;
- (d) cooperate with the credit acquiring company's business and support units and other internal control functions for the effective application of the security principles in the development of their policies and procedures;
- (e) develop and implement, in cooperation with the risk management function, an information security risk assessment and management program;
- (f) participate in the activities required for the implementation of effective security controls in the credit acquiring company's information technology infrastructure and provide guidelines to the relevant unit responsible for the operation of information systems and networks;
- (g) plan, organise and coordinate information security assessment activities;
- (h) monitor staff compliance with information security policies, standards, guidelines, processes and procedures.
- (3) The information security function shall be actively involved in the development and implementation of an education and training program on matters related to information security and privacy for all the employees.
- (4) The head of the information security function shall submit an annual report to the management body, through the risk committee with copy to the chief executive, which shall include at least a summary of the major information security risks that the credit acquiring company is facing, a list of all of significant information security incidents that occurred during the year and any outstanding issues that may jeopardise the information security of the credit acquiring company.

Internal audit function.

26. - (1) Companies shall appoint a person as the head of the internal audit function.
- (2) The internal audit function should be independent and effective, taking into account the proportionality criteria, shall have sufficient authority, stature and resources to be able to adequately fulfil its role and tasks.
- (3) The credit acquiring company shall ensure that the staff of the internal audit function have an adequate level of knowledge, skills and experience in matters of internal audit techniques and procedures.
- (4) The credit acquiring company shall ensure that the internal audit function has adequate resources, in particular regarding its auditing tools and risk analysis methods.
- (5) In assessing the adequacy of these resources, the credit acquiring company shall take into account:
- (a) its size and geographical locations,
 - (b) the nature, scale and complexity of the risks associated with its business model,
 - (c) the activities, the risk management culture and its risk appetite.
- (6) The internal audit function should assess both the effectiveness and the efficiency of the credit acquiring company's internal control framework and shall assess:
- (a) the appropriateness of the credit acquiring company's governance framework;
 - (b) whether existing policies and procedures remain adequate and comply with legal and regulatory requirements and with the risk appetite and strategy of the credit acquiring company;
 - (c) the compliance of the credit acquiring company's activities and procedures, including those that are outsourced, with the applicable laws and regulations and with the decisions of the management body;
 - (d) whether the procedures are correctly and effectively implemented;
 - (e) the adequacy, quality and effectiveness of the controls performed and the reporting done by the supporting business units and the risk management and compliance.

- (7) The internal audit function shall have unfettered access to all the records, documents, information and buildings of the credit acquiring company. This should include access to the management information systems and minutes of all committees and decision-making bodies.
- (8) The internal audit function should adhere to all relevant national and international professional standards.
- (9) Internal audit work should be performed in accordance to a draft and a detailed audit programme following a risk-based approach.
- (10) The internal audit function shall prepare an internal audit plan at least once a year based on the annual internal audit control objectives. The internal audit plan shall be approved by the management body.
- (11) All audit recommendations should be subject to a formal follow-up procedure by the appropriate levels of management to ensure their effective and timely resolution and the submission of relevant reports
- (12) The head of internal audit function shall submit a report to the management body on a quarterly basis, through the audit committee with copy to the chief executive, which shall include at least the most important observations that have emerged from the audits performed since the last report to the management body as well as suggestions for addressing any weaknesses that have been identified.

Provision of information to the Central Bank. 27.- (1) Where the credit acquiring company intends to outsource important activities, it shall inform the Central Bank accordingly and without delay.
(2) The credit acquiring company must appoint an outsourcing officer who will be responsible for overseeing outsourcing activities and prepare a semi-annual report to be submitted to the management body regarding the outsourcing agreement.

Conditions for outsourcing. 28. - Each significant operational activity that is outsourced to a third party shall meet the following conditions:
(a) such outsourcing does not lead to the transfer or abdication of responsibility on the part of the credit acquiring company or its executives,
(b) the responsibilities and obligations of the credit acquiring company vis-à-vis the borrowers and the competent authorities shall remain unchanged under applicable legislation,
(c) the conditions which the credit acquiring company must meet in order to obtain and maintain an operating licence in accordance with the Law are not affected, and
(d) the outsourcing agreement includes a provision according to which the person to whom significant operating activities are outsourced must, in relation to the activities in question, submit any information to the Central Bank that the Central Bank may require.

PART VI REPORTING TO THE CENTRAL BANK

Reporting to the Central Bank. 29.- Credit acquiring companies shall submit to the Central Bank:
(1) The minutes of the meetings of the management body, duly signed, within one (1) month from the date of the meeting in which the minutes have been approved.
(2) Within three (3) months from the end of each year, the following reports and information, together with corresponding assessments of the competent committees of the management body and the relevant extracts from the minutes of the management body's meetings:
(a) annual report on the internal control framework prepared by the head of the internal audit function;
(b) annual report on the management of risks prepared by the head of the risk management function;
(c) annual report on compliance prepared by the head of regulatory compliance function;
(d) annual report on information security prepared by the head of the information security function;
(e) annual report of the evaluation of the management body as a whole, of the committees and of the individual members, prepared by the management body in accordance with subparagraph (1) of paragraph 12, including the appraisal of the chairman of the management body;
(f) annual report by the outsourcing officer.
(3) An annual report by the Complaints Resolution Committee in accordance with the provisions of paragraph 17. The report shall be submitted at a time agreed with the Central Bank, on a case by case basis.
(4) Assessment reports on the adequacy and effectiveness of the internal governance framework, as prepared by an independent external consultant in accordance with the provisions of subparagraph (3) of paragraph 12.

PART VII
OTHER PROVISIONS

- Transparency. 30.- The management body shall inform and regularly provide staff with up-to-date and clear information in relation to the strategies and policies of the credit acquiring company, so that the staff is in position to perform its duties. This information may be provided through written guidelines, manuals or other means.
- Entry into force. 31.- This Directive shall enter into force on the date of its publication.

UNOFFICIAL TRANSLATION