THE SAFEGUARDING OF FINANCIAL INSTRUMENTS AND FUNDS BELONGING TO CLIENTS, PRODUCT GOVERNANCE OBLIGATIONS AND THE RULES APPLICABLE TO THE PROVISION OR RECEPTION OF FEES, COMMISIONS OR ANY MONETARY OR NON-MONETARY BENEFITS DIRECTIVES OF 2017 TO 2022 (Unofficial Consolidation)

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	PART I – INTRODUCTORY PROVISIONS
87(I) of 2017 Ch. 1 11 of 1989 Official Journal of the E.U., L87, 31.3.2017, p.500	The Central Bank, exercising the powers vested on it by virtue of section 96 of the Investment Services and Activities and Regulated Markets Law of 2017 and section 27 of the Interpretation Law, and for the purpose of harmonisation with the Delegated Directive (EU) 2017/593 of the European Commission of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or other monetary or non-monetary benefits, and for the purpose of harmonisation with the Delegated Directive (EU) 2021/1269 of the European Commission of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations, issues the following Directive:
Short title	1. This Directive shall be referred to as The Safeguarding of Clients' Assets, Product Governance Obligations and Inducements Directives of 2017 to 2022.
Definitions	2. In this Directive, unless otherwise specified by the text:
Official journal of the E.U. L302 17.11.2009, p.32	"qualifying money market fund", means a collective investment undertaking authorised under Directive 2009/65/EC, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), or which is subject to supervision and, if applicable, authorised by an authority under the national law of a Member State and which satisfies all of the following conditions:
	(a) 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; (b) 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; (c) it must provide liquidity through same day or next day settlement.
	For the purposes of point (b), a money market instrument shall be considered to be of high quality if the management/ investment company performs its own documented assessment of the credit quality of money market instruments that allows it to consider a money market instrument as high quality. Where one or more credit rating agencies registered and supervised by ESMA have provided a rating of the instrument, the management/investment company's internal assessment should have regard to, inter alia, those credit ratings.

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Official Journal of the E.U.: L173, 12.06.2014, p.349	“Directive 2014/65/EU” means the act of the European Union titled “Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), as last amended by Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016;
Official Journal of the E.U.: L317, 09.12.2019, p.1	“sustainability factors” means sustainability factors as defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector˙
66(I) of 1997 74(I) of 1999 94(I) of 2000 119(I) of 2003 4(I) of 2004 151(I) of 2004 231(I) of 2004 235(I) of 2004 20(I) of 2005 80(I) of 2008 100(I) of 2009 123(I) of 2009 27(I) of 2011 104(I) of 2011 107(I) of 2012 14(I) of 2013 87(I) of 2013 102(I) of 2013 141(I) of 2013 5(I) of 2015 26(I) of 2015 35(I) of 2015 71(I) of 2015 93(I) of 2015 109(I) of 2015 152(I) of 2015 168(I) of 2015 21(I) of 2016 5(I) of 2017 38(I) of 2017.	“Credit institution” has the meaning assigned to this term in section 2 (1) of the Business of Credit Institutions Law;
Official Journal of the E.U.: L 337, 23/12/2015, p.35	“Securities financing transaction” means the transactions as defined in Article 3, point 11 of Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse;
	“Law” means the Investment Services and Activities and Regulated Markets Law of 2017;

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	Without prejudice to the abovementioned provisions, terms used in this Directive and not otherwise interpreted shall have the meaning assigned to them by the Law.
	Where in this Directive reference is made to the Law, it also means the delegated directives issued by it and any other relevant European Union act.
Purpose and scope	3. (1) This Directive determines and specifies the provisions of sections 17 and 25 of the Law with regard to organisational obligations, and the general principles and information to clients, respectively.
	(2) This Directive applies to credit institutions where such institutions carry out activities which fall under the provisions of the law.
	CHAPTER II SAFEGUARDING OF CLIENT FINANCIAL INSTRUMENTS AND FUNDS
Safeguarding of client financial instruments and funds	4. (1) Credit institutions shall comply with the following requirements:
	(a) they must keep records and accounts enabling 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 and that they may be used as an audit trail;
	(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 paragraph 5, are identifiable separately from the financial instruments belonging to the credit institution 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 paragraph 6, 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 credit institution;
	(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

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	assets, as a result of misuse of the assets, fraud, poor administration, inadequate record-keeping or negligence.
	(2) If, for reasons related to the applicable law, including in particular the law relating to property or insolvency, the credit institution cannot comply with the requirements of subparagraph 1 for the safeguarding of clients' rights to satisfy the requirements of subsections (8) and (9) of section 17 of the Law, then it shall establish arrangements to ensure the safeguarding of the assets of its clients, in order to comply with subparagraph 1.
	(3) If the applicable law of the jurisdiction in which the client funds or financial instruments are held prevents credit institutions from complying with subparagraph 1(d) or (e), the Central Bank shall prescribe requirements which have an equivalent effect in terms of safeguarding clients' rights.
	Where equivalent requirements are imposed in accordance with subparagraph 1 (d) or (e), the credit institution shall inform its clients that in such instances they do not benefit from the provisions envisaged under the Law and this Directive.
	(4) The credit institution shall ensure that security interests, liens or rights of set-off over client financial instruments or funds enabling a third party to dispose of the client's financial instruments or funds in order to recover debts that do not relate to the client or provision of services to the client, are not permitted except where this is required by the applicable law in a third country jurisdiction in which the client funds or financial instruments are held.
	The credit institution, when entering into agreements that create such security interests, liens or rights of set-off, discloses that information to clients, indicating to them the risks associated with those arrangements.
	Where security interests, liens or rights of set-off are granted by the credit institution over client financial instruments or funds, or when the credit institution has been informed that they are granted, then these must be recorded in the client contracts and the accounts of the credit institution to make the ownership status of client assets clear, such as in the event of an insolvency.
	(5) The credit institution shall make information pertaining to clients' financial instruments and funds readily available to the competent authorities, the appointed insolvency practitioners and those responsible for the resolution of failed institutions. The information to be made available shall include the following:
	(a) related internal accounts and records that readily identify the balances of funds and financial instruments held for each client;
	(b) where client funds are held by credit institutions in accordance with paragraph 6, details on the accounts in which client funds are held and on the relevant agreements with those firms;
	(c) where financial instruments are held by the credit institution in accordance with paragraph 5, details on the accounts opened with third parties and on the relevant agreements with those third parties, as well as details on the relevant agreements with the credit institution;

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	(d) details of third parties carrying out any related (outsourced) tasks and details of any outsourced tasks;
	(e) key individuals of the credit institution involved in related processes, including those responsible for the oversight of the credit institution's requirements in relation to the safeguarding of client assets; and
	(f) agreements relevant to the establishment of client ownership over assets.
Depositing client financial instruments	5. (1) The credit institution may deposit financial instruments held by it on behalf of its clients into an account or accounts opened with a third party, provided that the credit institution exercises all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and safekeeping of those financial instruments.
	In particular, a credit institution must take into account the expertise and market reputation of the third party, as well as any legal requirements related to the holding of those financial instruments that could adversely affect clients' rights.
	(2) A credit institution may deposit client financial instruments with a third party, only where the third party is established in a jurisdiction where the safekeeping of financial instruments for the account of another person is subject to specific regulation and supervision and that third party is subject to this specific regulation and supervision.
	(3) The credit institution is not allowed to deposit financial instruments held on behalf of clients with a third party established 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;
	(b) where the financial instruments are held on behalf of a professional client, that client requests the credit institution in writing to deposit them with a third party in that third country.
	(4) The requirements of subparagraphs (2) and (3) also apply when the third party has delegated any of its functions concerning the holding and safekeeping of financial instruments to another third-party.
Depositing client funds	6. (1) The credit institution may place client funds, other than those relating to deposits held by the credit institution itself, into one or more accounts opened with any of the following:
	(a) a central bank; (b) another credit institution· (c) a bank authorised in a third country·

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	(d) a qualifying money market fund.
	(2) Where a credit institution deposits client funds with a third party as referred to in sub-paragraph (1), other than a central bank, it 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 and takes into consideration the need for diversification of these funds as part of the required due diligence.
	In particular, the credit institution must 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.
	The credit institution ensures in every case that clients give their explicit consent to the placement of their funds in a qualifying money market fund. In order to ensure that the right to consent is effective, the credit institution informs its clients that funds placed with a qualifying money market fund will not be held in accordance with the requirements for safeguarding client funds set out in this Directive.
	(3) Where a credit institution deposits client funds with another credit institution, bank or money market fund of the same group as the credit institution, then the credit institution shall limit the funds that are deposited with any such group entity or combination of any such group entities, so that funds do not exceed 20% of all such funds.
	The credit institution may not comply with this limit where it is able to demonstrate that in view of the nature, scale and complexity of its business, and also the safety offered by the third parties referred above, and including in any case the small balance of client funds that the credit institution holds, the requirement under this subparagraph is not proportionate. The credit institution reviews periodically the assessment made in accordance with this subparagraph and notifies the Central Bank of its initial and reviewed assessments.
Use of client financial instruments	7. (1) The credit institution shall not enter into arrangements for securities financing transactions in respect of financial instruments held by it on behalf of a client, or otherwise use such financial instruments for their own account or the account of any other person or client, unless both of the following conditions are met:
	(a) the client has given his prior express consent to the use of the instruments on specified terms, as clearly evidenced in writing and affirmatively executed by signature or equivalent, and
	(b) the use of that client's financial instruments is restricted to the specified terms to which the client consents.
	2. The credit instidution shall not enter into arrangements for securities financing transactions in respect of financial instruments which are held on behalf of a client

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	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 any other person unless, in addition to the conditions set out in subparagraph 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 subpargraph 1(a)·
	(b) the credit institution 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 subparagraph 1(a) are used.
	The records of the credit institution must include details of the client on whose instructions the use of the financial instruments has been effected, as well as the number of financial instruments used belonging to each client who has given his consent, so as to enable the correct allocation of any loss.
	(3) The credit institution takes appropriate measures to prevent the unauthorised use of client financial instruments for its own account or the account of any other person, such as:
	(a) the conclusion of agreements with clients on measures to be taken by the credit institution in case the client does not have enough provision on its account on the settlement date, such as borrowing of the corresponding securities on behalf of the client or unwinding the position;
	(b) the close monitoring by the credit institution of its projected ability to deliver on the settlement date and the putting in place of remedial measures in the event that this cannot be done; and
	(c) the close monitoring and prompt requesting of undelivered securities outstanding on the settlement day and beyond.
	(4) The credit institution must adopt specific arrangements for all clients to ensure that the borrower of client financial instruments provides the appropriate collateral and that it monitors the continued appropriateness of such collateral and takes the necessary steps to maintain the balance with the value of client instruments.
	(5) The credit institution shall not enter into arrangements which are prohibited under subsection (10) of section 17 of the Law.
Inappropriate use of title transfer collateral arrangements	8. (1) The credit institution properly considers, and is able to demonstrate that it has done so, the use of title transfer collateral arrangements in the context of the relationship between the client's obligation to the credit institution and the client assets subjected to title transfer collateral arrangements by the credit institution.
	(2) When considering, and documenting, the appropriateness of the use of title transfer collateral arrangements, the credit institution takes into account all of the following factors:

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	(a) whether there is only a very weak connection between the client's obligation to the credit instidution and the use of title transfer collateral arrangements, including whether the likelihood of a clients' liability to the credit institution is low or negligible;
	(b) whether the amount of client funds or financial instruments subject to title transfer collateral arrangements far exceeds the client's obligation, or is even unlimited if the client has any obligation at all to the credit instritution; and
	(c) whether all clients' financial instruments or funds are made subject to title transfer collateral arrangements, without consideration of what obligation each client has to the credit instrituion.
	(3) Where using title transfer collateral arrangements, credit institutions shall highlight to professional clients and eligible counterparties the risks involved and the effect of any title transfer collateral arrangement on the client's financial instruments and funds.
Governance arrangements concerning the safeguarding of client assets	9. The credit instution appoints a single officer of sufficient skill and authority with specific responsibility for matters relating to the compliance of credit institutions with their obligations regarding the safeguarding of client financial instruments and funds.
	The credit institution decides, by ensuring full compliance with this Directive, whether the appointed officer is to be dedicated solely to this task or whether the officer can discharge responsibilities effectively whilst having additional responsibilities.
Reports by external auditors	10. The credit institution ensures that its external auditors report at least annually to the Central Bank on the adequacy of the credit institution's arrangements under subsections (8), (9) and (10) of section 17 of the Law and under the provisions of this Part .
CHAPTER III PRODUCT GOVERNANCE REQUIREMENTS	
Product governance obligations for a credit institution that manufactures financial instruments	11. (1) A credit institution must comply with this paragraph when manufacturing financial instruments, which encompasses the creation, development, issuance and/or design of financial instruments.
	A credit institution that manufactures financial instruments complies, in a way that is appropriate and proportionate, with the relevant requirements in subparagraphs

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	2 to 15, taking into account the nature of the financial instrument, the investment service and the target market for the product.
	(2) The credit institution establishes, implements and maintains procedures and measures to ensure that the manufacturing of financial instruments complies with the requirements relating to proper management of conflicts of interest, including remuneration.
	In particular, the credit institution manufacturing financial instruments ensures that the design of the financial instrument, including its features, does not adversely affect end clients or does not lead to problems with market integrity by enabling the credit institution to mitigate and/or dispose of its own risks or exposure to the underlying assets of the product, where the credit institution already holds the underlying assets on own account.
	(3) The credit iinstitution analyses potential conflicts of interests each time it manufactures a financial instrument. In particular, the credit institution shall assess whether the financial instrument creates a situation where end clients may be adversely affected if they take:
	(a) an exposure opposite to the one previously held by the credit institution; or
	(b) an exposure opposite to the one that the credit institution wants to hold after the sale of the product.
	(4) The credit institution examines whether the financial instrument may represent a threat to the orderly functioning or stability of financial markets before deciding to proceed with the launch of the product.
	(5) The credit institution ensures that relevant staff involved in the manufacturing of financial instruments possess the necessary expertise to understand the characteristics and risks of the financial instruments they intend to manufacture.
	(6) The credit institution ensures that the management body has effective control over the credit institution's product governance process. The credit institution ensures that the compliance reports to the management body systematically include information about the financial instruments manufactured by the credit institution, including information on the distribution strategy. The credit institution makes the compliance reports available to the Central Bank on request.
	(7) The credit institution ensures that the compliance function monitors the development and periodic review of product governance arrangements in order to detect any risk of failure by the credit institution to comply with the obligations set out in this paragraph.
	(8) Where the credit institution collaborates, including with entities which are not authorised and supervised in accordance with Directive 2014/65/EU or third-country firms, to create, develop, issue and/or design a product, must outline their mutual responsibilities in a written agreement.
	(9) (a) The credit institution identifies at a sufficiently granular level the potential target market for each financial instrument and specifies the type(s) of client with

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	whose needs, characteristics and objectives, including any sustainability related objectives, the financial instrument is compatible. As part of this process, the credit institution identifies any group(s) of clients with whose needs, characteristics and objectives the financial instrument is not compatible, except where financial instruments consider sustainability factors. Where the credit institution collaborates to manufacture a financial instrument, only one target market needs to be identified.
	(b) A credit institution which manufactures financial instruments that are distributed through investment firms or other credit institutions, shall determine the needs and characteristics of clients for whom the product is compatible based on their theoretical knowledge of, and past experience with the financial instrument or similar financial instruments, the financial markets and the needs, characteristics and objectives of potential end clients.
	(10) The credit institution undertakes a scenario analysis of their financial instruments which shall assess the risks of poor outcomes for end clients posed by the product and in which circumstances these outcomes may occur. The credit institution assesses the financial instrument under negative conditions covering what would happen if, for example:
	(a) the market environment deteriorated;
	(b) the manufacturer or a third party involved in manufacturing and or functioning of the financial instrument experiences financial difficulties or other counterparty risk materialises;
	(c) the financial instrument fails to become commercially viable; or
	(d) the demand for the financial instrument is much higher than anticipated, putting a strain on the credit institution's resources and/or on the market of the underlying instrument.
	(11) The credit institution determines whether a financial instrument meets the identified needs, characteristics and objectives of the target market, including by examining the following elements:
	(a) the financial instrument's risk/reward profile is consistent with the target market; (b) the financial instrument's sustainability factors, where relevant, are consistent with the target market; and (c) the design of the financial instrument is driven by features that benefit the client and not by a business model that relies on poor client outcomes to be profitable.
	(12) The credit institution considers the charging structure proposed for the financial instrument, including by examining the following:
	(a) the financial instrument's costs and charges are compatible with the needs, objectives and characteristics of the target market;

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	(b) charges do not undermine the financial instrument's return expectations, such as where the costs or charges equal, exceed or remove almost all the expected tax advantages linked to a financial instrument; and
	(c) the charging structure of the financial instrument is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand.
	(13) (a) The credit institution ensures that the provision of information about a financial instrument to distributors includes information about the appropriate channels for distribution of the financial instrument, the product approval process and the target market assessment and is of an adequate standard to enable distributors to understand and recommend or sell the financial instrument properly. (b) The sustainability factors of the financial instrument shall be presented in a transparent manner and provide distributers with the relevant information to duly consider any sustainability related objectives of the client or potential client.
	(14) The credit institution reviews the financial instruments it manufactures on a regular basis, taking into account any event that could materially affect the potential risk to the identified target market. The credit institution examines whether the financial instrument remains consistent with the needs, characteristics and objectives, including any sustainability related objectives, of the target market and if it is distributed to the target market, or reaches clients for whose needs, characteristics and objectives the financial instrument is not compatible.
	(15) The credit institution reviews the financial instruments prior to any further issue or re-launch, if it is aware of any event that could materially affect the potential risk to investors and at regular intervals to assess whether the financial instruments function as intended. The credit institution determines how regularly it will review its financial instruments based on relevant factors, including factors linked to the complexity or the innovative nature of the investment strategies pursued. The credit institution also identifies crucial events that would affect the potential risk or return expectations of the financial instrument, such as:
	(a) the crossing of a threshold that will affect the return profile of the financial instrument; or (b) the solvency of certain issuers whose securities or guarantees may impact the performance of the financial instrument.
	When such events occur, the credit institution takes appropriate action which may consist of:
	(a) the provision of any relevant information on the event and its consequences on the financial instrument to the clients or the distributors of the financial instrument if the credit institution does not offer or sell the financial instrument directly to the clients;
	(b) changing the product approval process;
	(c) stopping further issuance of the financial instrument;

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	(d) changing the financial instrument to avoid unfair contract terms;
	(e) considering whether the sales channels through which the financial instruments are sold are appropriate where the credit institution becomes aware that the financial instrument is not being sold as envisaged;
	(f) contacting the distributor to discuss a modification of the distribution process;
	(g) terminating the relationship with the distributor; or
	(h) informing the Central Bank.
Product governance obligations for distributors	12. (1) The credit institution when deciding the range of financial instruments issued by it or other firms and the services it intends to offer or recommend to clients, complies, in a way that is appropriate and proportionate, with the relevant requirements laid down in subparagraphs (2) to (10), by taking into account the nature of the financial instrument, the investment service and the target market for the product.
	The credit institution complies with the requirements of the Law when offering or recommending financial instruments made by entities that are not subject to the Law. As part of this process, the credit institution has in place effective arrangements to ensure that it obtains sufficient information about these financial instruments from these manufacturers.
	The credit institution determines the target market for the respective financial instrument, even if the target market was not defined by the manufacturer.
	(2) The credit institution has in place adequate product governance arrangements to ensure that the products and services it intends to offer or recommend are compatible with the needs, characteristics, and objectives, including any sustainability related objectives, of an identified target market and that the intended distribution strategy is consistent with the identified target market. The credit institution identifies and assesses the circumstances and needs of the clients it intends to focus on, so as to ensure that clients' interests are not compromised as a result of commercial or funding pressures. As part of this process, the credit institution identifies any groups of clients for whose needs, characteristics and objectives the product or service is not compatible, except where financial instruments consider sustainability factors.
	The credit institution obtains from manufactures that are subject to the Law, information to gain the necessary understanding and knowledge of the products it intends to recommend or sell in order to ensure that these products will be distributed in accordance with the needs, characteristics and objectives of the identified target market.
	The credit institution takes all reasonable steps to ensure that it also obtains adequate and reliable information from manufacturers not subject to Law, to ensure that products will be distributed in accordance with the characteristics, objectives and needs of the target market. Where relevant information is not publicly available, the distributor shall take all reasonable steps to obtain such relevant information from the manufacturer or its agent. Acceptable publicly available information is information which is clear, reliable and produced to meet

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Official Journal of the E.U. L345, 31.12.2003, p.64 L.390 31.12.2004, p.38	regulatory requirements, such as disclosure requirements under Directive 2003/71/EC with regard to the prospectus to be published when securities are offered to the public or admitted to trading or Directive 2004/109/EC on the harmonisation of transparency requirements for information on issuers whose securities are admitted to trading on a regulated market. This obligation is relevant for products sold on a primary and secondary market and is applied in a proportionate manner, depending on the degree to which publicly available information is obtainable and the complexity of the product.
	The credit institution uses the information obtained from manufacturers and information on its own clients to identify the target market and distribution strategy. When the credit institution acts both as a manufacturer and a distributor, only one target market assessment is required.
	(3) The credit institution, when deciding the range of financial instrument and services that it offers or recommends and the respective target markets, maintains procedures and measures to ensure compliance with all applicable requirements under the Law including those relating to disclosure, assessment of suitability or appropriateness, inducements and proper management of conflicts of interest. In this context, particular care is taken when distributors intend to offer or recommend new products or there are variations to the services they provide.
	(4) The credit institution periodically reviews and updates its product governance arrangements in order to ensure that they remain robust and fit for their purpose, and take appropriate actions where necessary.
	(5) The credit institution reviews the investment products it offers or recommends and the services it provides on a regular basis, taking into account any event that could materially affect the potential risk to the identified target market. The credit institution shall assess at least, whether the product or service remains consistent with the needs, characteristics and objectives, including any sustainability related objectives, of the identified target market and whether the intended distribution strategy remains appropriate. The credit institution reconsider the target market and/or updates the product governance arrangements if it becomes aware that it has wrongly identified the target market for a specific product or service or that the product or service no longer meets the circumstances of the identified target market, such as where the product becomes illiquid or very volatile due to market changes.
	(6) The credit institution ensures that its compliance function oversees the development and periodic review of product governance arrangements in order to detect any risk of failure to comply with the obligations set out in this paragraph.
	(7) The credit institution ensures that the relevant staff possess the necessary expertise to understand the characteristics and risks of the products that it intends to offer or recommend and the services provided as well as the needs, characteristics and objectives of the identified target market.
	(8) The credit institution ensures that the management body has effective control over the credit institution's product governance process to determine the range of investment products that it offers or recommends and the services provided to the respective target markets. The credit institution ensures that the compliance

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	reports to the management body systematically include information about the products it offers or recommends and the services provided. The compliance reports shall be made available to Central Bank on request.
	(9) The distributors provide manufacturers with information on sales and, where appropriate, information on the above reviews to support product reviews carried out by manufacturers.
	(10) Where the credit institution works together with different entities in the distribution of a product or service, the credit institution that has direct client relationship has the ultimate responsibility to meet the product governance obligations set out in this paragraph. However, in case a credit institution acts as an intermediary, it applies the following:
	(a) ensures that relevant product information is passed from the manufacturer to the final distributor in the chain;
	(b) if the manufacturer requires information on product sales in order to comply with their own product governance obligations, it enables them to obtain it; and
	(c) applies the product governance obligations for manufacturers, as relevant, in relation to the service it provides.
	CHAPTER IV INDUCEMENTS
Inducements	13. (1) The credit institution that pays or is being paid any fee or commission or providing or being provided with any non-monetary benefit in connection with the provision of an investment service or ancillary service to the client, ensures that all the conditions set out in section 25(9) of the Law and requirements set out in subparagraphs (2) to (5) are met at all times.
	(2) A fee, commission or non-monetary benefit shall be considered to be designed to enhance the quality of the relevant service to the client if all of the following conditions are met:
	(a) it is justified by the provision of an additional or higher level service to the relevant client, proportional to the level of inducements received, such as:
	(i) the provision of non-independent investment advice on and access to a wide range of suitable financial instruments and, including an appropriate number of instruments from third party product providers that have no close links with the credit institution; (ii) the provision of non-independent investment advice combined with either: an offer to the client, at least on an annual basis, to assess the continuing suitability of the financial instruments in which the client has invested; or with another on-going service that is likely to be of value to the client such as advice about the suggested optimal asset allocation of the client; or (iii) the provision of access, at a competitive price, to a wide range of financial instruments that are likely to meet the needs of the client, including an appropriate number of instruments from third party

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	product providers having no close links with the credit institution, together with either the provision of added-value tools, such as objective information tools helping the relevant client to take investment decisions or enabling the relevant client to monitor, model and adjust the range of financial instruments in which it has invested, or providing periodic reports of the performance and costs and charges associated with the financial instruments.
	(b) it does not directly benefit the recipient credit institution, its shareholders or employees without tangible benefit to the relevant client; (c) it is justified by the provision of an on-going benefit to the relevant client in relation to an on-going inducement.
	A fee, commission, or non-monetary benefit shall not be considered acceptable if the provision of relevant services to the client is biased or distorted as a result of the fee, commission or non-monetary benefit.
	(3) The credit institution fulfils the requirements set out in subparagraph (2) on an ongoing basis as long as it continues to pay or receive the fee, commission or non-monetary benefit.
	(4) The credit institution holds evidence that any fees, commissions or non-monetary benefits paid or received by it, are designed to enhance the quality of the relevant service to the client:
	(a) by keeping an internal list of all fees, commissions and non-monetary benefits received from a third party in relation to the provision of investment or ancillary services; and
	(b) by recording how the fees, commissions and non-monetary benefits paid or received by the credit institution, or that it intends to use, enhance the quality of the services provided to the relevant clients and the steps taken in order not to impair the credit institution’s duty to act honestly, fairly and professionally in accordance with the best interests of the client.
	(5) The credit institution discloses to the client the following information in relation to any payment or benefit received from or paid to third parties:
	(a) prior to the provision of the relevant investment or ancillary service, the credit institution discloses to the client information on the payment or benefit concerned in accordance with section 25(9)(b) of the Law. Minor non-monetary benefits may be described in a generic way. Other non-monetary benefits received or paid by the credit institution in connection with the investment service provided to a client shall be priced and disclosed separately;
	(b) where the credit institution was unable to ascertain on an ex-ante basis the amount of any payment or benefit to be received or paid, and instead disclosed to the client the method of calculating that amount, the credit institution also provides its clients with information of the exact amount of the payment or benefit received or paid on an ex-post basis; and
	(c) at least once a year, as long as (on-going) inducements are received by the credit institution in relation to the investment services provided to the relevant

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	clients, the credit institution informs its clients on an individual basis about the actual amount of payments or benefits received or paid. Minor non-monetary benefits may be described in a generic way.
Official Journal of the E.U. L.087 31.3.2017, p.1	The credit institution, in implementing these requirements, takes into account the rules on costs and charges set out in section 25(4)(a) (iii) and (b) of the Law and Article 50 of the Commission Delegated Regulation (EU) 2017/565 of the Council.
	When more credit institutions are involved in a distribution channel, each credit institution providing an investment or ancillary service complies with its obligations to make disclosures to its clients.
Inducements in respect of investment advice on an independent basis or portfolio management services	14. (1) A credit institution that provides investment advice on an independent basis or portfolio management services, returns to the clients any fees, commissions or any monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the services provided to that client as soon as reasonably possible after receipt. All fees, commissions or monetary benefits received from third parties in relation to the provision of independent investment advice and portfolio management, is transferred to the client in full.
	The credit institution sets up and implements a policy to ensure that any fees, commissions or any monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of independent investment advice and portfolio management are allocated and transferred to each individual client.
	The credit institution informs clients about the fees, commissions or any monetary benefits transferred to it, such as through the periodic reporting statements provided to the client.
	(2) The credit institution that provides investment advice on an independent basis or portfolio management shall not accept non-monetary benefits that do not qualify as acceptable minor non-monetary benefits in accordance with subparagraph (3).
	(3) The following benefits qualify as acceptable minor non-monetary benefits only if they are:
	(a) information or documentation relating to a financial instrument or an investment service, is generic in nature or personalised to reflect the circumstances of an individual client; (b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance, or where the third party is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any credit institution or investment firm wishing to receive it or to the general public;

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	(c) participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service; (d) hospitality of a reasonable *de minimis* value, such as food and drink during a business meeting or a conference, seminar or other training events mentioned under point (c); and (e) other minor non-monetary benefits which the Central Bank deems capable of enhancing the quality of service provided to a client and, having regard to the total level of benefits provided by one entity or group of entities, are of a scale and nature that are unlikely to impair compliance with an credit institution's duty to act in the best interest of the client.
	Acceptable minor non-monetary benefits are reasonable and proportionate and of such a scale that they are unlikely to influence the credit institution's behaviour in any way that is detrimental to the interests of the relevant client.
	Disclosure of minor non-monetary benefits shall be made prior to the provision of the relevant investment or ancillary services to clients. In accordance with paragraph 13(5)(a), minor non-monetary benefits may be described in a generic way.
Inducements in relation to research	15. (1) The provision of research by third parties to a credit institution that provides portfolio management or other investment or ancillary services to clients is not regarded as an inducement if it is received in return for either of the following:
	(a) direct payments by the credit institution out of its own resources;
	(b) payments from a separate research payment account controlled by the credit institution, provided the following conditions relating to the operation of the account are met:
	(i) the research payment account is funded by a specific research charge to the client; (ii) as part of establishing a research payment account and agreeing the research charge with its clients, the credit institution sets and regularly assesses a research budget as an internal administrative measure; (iii) the credit institution is held responsible for the research payment account; (iv) the credit institution regularly assesses the quality of the research purchased based on robust quality criteria and its ability to contribute to better investment decisions.
	With regard to point (b) above, where the credit institution makes use of the research payment account, it provides the following information to the clients: (a) information about the budgeted amount for research and the amount of the estimated research charge for each of the clients, before the provision of an investment service to the clients;

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	(b) annual information on the total costs that each of them has incurred for third party research.
	(2) Where the credit institution operates a research payment account, upon request by its clients or the Central Bank, it shall provide a summary of the providers paid from this account, the total amount they were paid over a defined period, the benefits and services received by the credit institution, and how the total amount spent from the account compares to the budget set by the credit institution for that period, noting any rebate or carry-over if residual funds remain in the account. For the purposes of subparagraph 1(b)(i) , the specific research charge shall:
	(a) only be based on a research budget set by the credit institution for the purpose of establishing the need for third party research in respect of investment services rendered to its clients; and (b) not be linked to the volume and/or value of transactions executed on behalf of the clients.
	(3) Every operational arrangement for the collection of the client research charge, where it is not collected separately but alongside a transaction commission, shall indicate a separately identifiable research charge and shall fully comply with the conditions set out in the first paragraph of subparagraph 1(b) and the second paragraph of subparagraph 1.
	(4) The total amount of research charges received may not exceed the research budget.
	(5) The credit institution agrees with clients, in the investment management agreement or general terms of business, the research charge as budgeted by the credit institution and the frequency with which the specific research charge will be deducted from the resources of the client over the year. Increases in the research budget shall only take place after the provision of clear information to clients about such intended increases. If there is a surplus in the research payment account at the end of a period, the credit institution has a process to rebate those funds to the client or to offset it against the research budget and charge calculated for the following period.
	(6) For the purposes of subparagraph 1(b)(i) the research budget will be managed solely by the credit institution and will be based on a reasonable assessment of the need for third party research. The allocation of the research budget to purchase third party research shall be subject to appropriate controls and senior management oversight to ensure it is managed and used in the best interests of the clients of the credit institution. Those controls include a clear audit trail of payments made to research providers and how the amounts paid were determined with reference to the quality criteria referred to in subparagraph 1 (b) (iv). The credit institution shall not use the research budget and research payment account to fund internal research.
	(7) For the purposes of subparagraph 1(b)(iii), the credit institution may delegate the administration of the research payment account to a third party, provided that the arrangement facilitates the purchase of third party research and payments to

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	research providers in the name of the credit institution without any undue delay in accordance with the credit institution's instruction.
	(8) For the purposes of subparagraph 1(b)(iv), the credit institution establishes all necessary elements in a written policy and provides it to its clients. The policy also addresses the extent to which research purchased through the research payment account may benefit clients' portfolios, including, where relevant, by taking into account the investment strategies applicable to various types of portfolios, and the approach the credit institution will take to allocate such costs fairly to the various clients' portfolios.
	(9) A credit institution that provides execution services identifies separate charges for these services that only reflect the cost of executing the transaction. The provision of any other benefit or service by the same credit institution to other credit institutions or investment firms established in the European Union shall be subject to a separately identifiable charge; the supply of and charges for those benefits or services shall not be influenced or conditioned by the levels of payment for execution services.
	CHAPTER V FINAL PROVISIONS
Entry force	16. This Directive enters into force on 3 January 2018 and Amending Directive on 22 November 2022

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